CAPITEC
BANK
LIMITED

Annual Report 2015

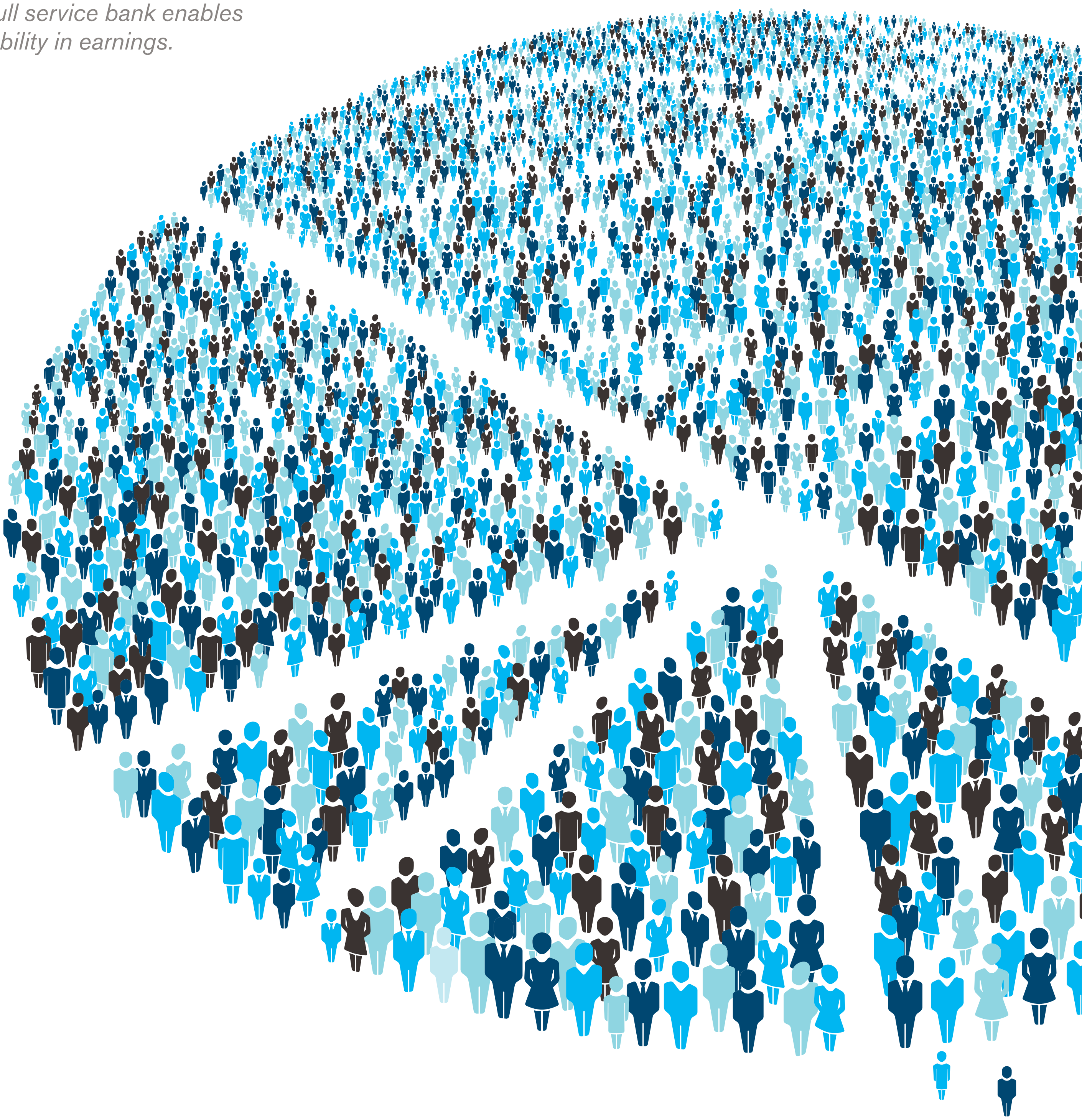
People – is what banking is all about

Retail banking is about people. Understanding the needs of people and finding effective solutions that involve people and systems. We know that the reason we are in business is to help people better manage their financial lives. Therefore, everything we do is directed at delivering solutions in the best interest of people.

2015

What is the chief financial officer's view? 01

Our strategy of developing a full service bank enables stability in earnings.



Returning sustainable value

Profit of R2.457 billion

Profit for the 2015 financial year amounted to R2.457 billion compared to the R2.009 billion earned in 2014. Earnings increased by 22% measured year-on-year. The increase in earnings was due to enhanced management of credit, which improved the performance of the loan book and growth in net transaction fee income from robust client acquisition.

Loans advanced ('sales')

Adjustments to the credit granting model changed the term structure of sales

In 2015 we again refined the precision of our credit granting models. This enabled us to achieve lower risk loan sales, totaling R19.4 billion for the year (2014: R18.2 billion). The maximum loan offer was reduced to R200 000 and access to the maximum credit offer remained tight with only the very best clients qualifying for this amount.

Changes made during the year included enabling credit system compliance with the requirements in the NCA regulations for the removal of adverse client data from the credit bureau and industry initiatives to report new credit granted to the bureau within 48 hours. In October 2014 we made substantive changes to our credit granting criteria to sharpen the quality of the credit we advance.

The change in granting criteria had the effect that clients, who may previously have qualified for loans in the maximum 61-84 term category, were granted loans in the 49-60 month category. The number of loans granted in the maximum category declined by 24% while the number of loans granted in the 49-60 month bucket increased by 10%. The average loan size for both of these longer-term buckets increased. While the value of sales in the 37-48 month category remained largely unchanged from 2014, the number of loans sold decreased by 13% and consequently the average loan size increased.

The aim to move clients to shorter terms also saw strong growth in the value of sales in the 13-36 month category. Here the number of loans increased by 1% but the average loan size also increased.

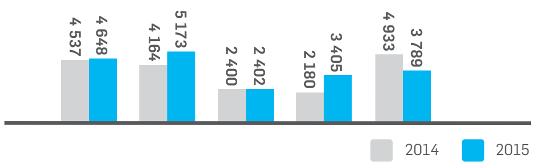
The market for loans in the short-term category of 1-12 months is highly competitive. The total number of short-term loans granted declined by 8% to 2.3 million. However, the value of sales increased by 2% to R4.6 billion. The overall mix of loan sales for terms less than 12 months to loans sold with terms more than 12 months changed from 25:75 for 2014 to 24:76 in 2015. The total number of loans advanced declined by 7%.

Negative industry growth of 14%

As per NCR statistics the unsecured lending industry experienced negative growth for the first three calendar quarters of 2014, declining by 14%[(1)] or R9.2 billion compared to the same period in 2013 when credit declined by 11%. This is due in part to a pullback in loans issued by African Bank subsequent to being placed under curatorship. Capitec Bank has been circumspect in granting loans, not rushing in to fill the void, but focusing on identifying and lending to better quality credit clients.

[(1)] *Capitec Bank reflects loans advanced net of internal loan consolidations. The NCR consumer credit reports do not explicitly mention that internal and external loan consolidations are removed from the statistics. Credit granted by the market, as reported therein, may be inflated.*

LOAN SALES BY PRODUCT (R'm)



	(Months)					Total
	1-12	13-36	37-48	49-60	61-84	
2014	4 537	4 164	2 400	2 180	4 933	18 214
%	25	23	13	12	27	100
2015	**4 648**	**5 173**	**2 402**	**3 405**	**3 789**	**19 417**
%	**24**	**27**	**12**	**18**	**19**	**100**

Loan revenue

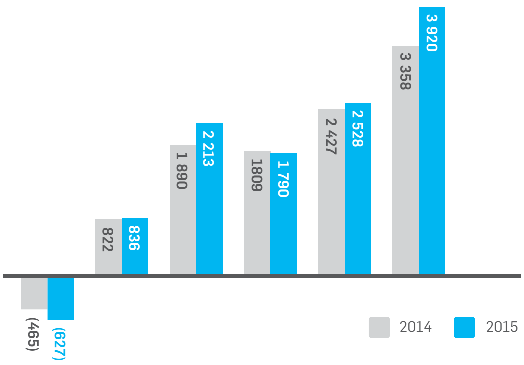
8% growth in loan revenue

Loan revenue, which consists of interest, origination fees and monthly administration fees net of insurance expense, grew by 8% to R10.7 billion compared to the 23% growth in 2014.

Interest income grew by 14% as sales increased. The interest income line continues to benefit from the contribution from interest on loans written in previous years (the annuity income effect). Net loan fee income (loan fees net of insurance expenses) declined 26% to R619 million, due to an increase for insurance costs for insuring the book against the death or retrenchment of clients and because we do not charge an additional initiation fee for loan consolidations. Our lending decline rate was 57% (2014: 56%). Of the 43% of clients we approved for credit 70% take-up our offer (2014: 65%). The net application take-up rate is 30% (2014: 29%).

The distribution of this revenue by product category is shown in the graph that follows.

LOAN REVENUE BY PRODUCT (R'm)



	Insurance	(Months) 1-12	13-36	37-48	49-60	61-84	Total
2014	(465)	822	1 890	1 809	2 427	3 358	9 841
2015	**(627)**	**836**	**2 213**	**1 790**	**2 528**	**3 920**	**10 660**

The continued high revenue on the longer-term loan products, despite a decrease in sales, is due to the effect of annuity income from loans written in previous years. This is especially evident in the 61-84 month product group where loan sales were lower than the prior year. The strong loan sales in the 49-60 product category occurred mostly in the second six months of the year following adjustments to the granting model in October 2014. Consequently the related revenue contribution was not for a full year. Sales for the 13-36 month category grew strongly and evenly throughout the year with a consequent increase in annual revenue.

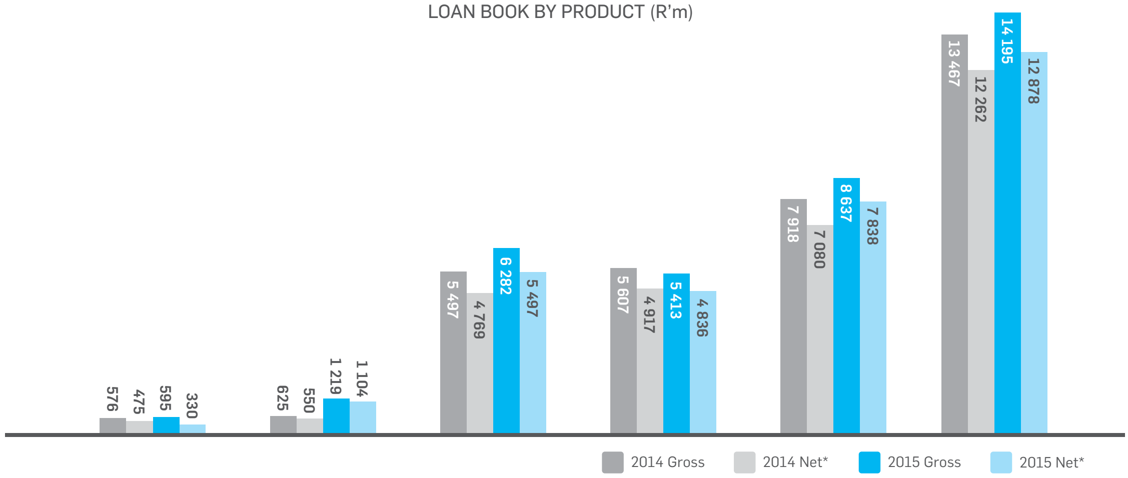
Sales for the short -term products increased in the second six months of the year after having been lower in the first six months, ending the year slightly above 2014. The revenue followed this pattern, benefiting from much better initiation fee revenue in the second six months.

Outstanding loan capital protected from retrenchments and the death of clients

We continue to insure our book against events relating to retrenchment (non-government) and the death of all our clients. The full value of any outstanding loan is insured. Insurance cost increased during the year as the book grew and as the rate on retrenchment insurance became more expensive. Insurance premiums cost Capitec Bank R627 million (2014: R465 million).

This insurance protects Capitec Bank from bad debts, but also benefits our clients. When retrenched, our clients have a safety buffer (this includes our government clients who receive this same benefit) and in death, Capitec Bank does not claim against their deceased estates. We do not charge our clients an additional premium for this. We will not be impacted by any caps on credit insurance imposed by regulators.

LOAN BOOK BY PRODUCT (R'm)



	Other	1-12	13-36	(Months) 37-48	49-60	61-84	Total
2014 Gross	576	625	5 497	5 607	7 918	13 467	33 690
2014 Provision	(101)	(75)	(728)	(690)	(838)	(1 205)	(3 637)
2014 Net*	475	550	4 769	4 917	7 080	12 262	30 053
2015 Gross	**595**	**1 219**	**6 282**	**5 413**	**8 637**	**14 195**	**36 341**
2015 Provision	**(265)**	**(115)**	**(785)**	**(577)**	**(799)**	**(1 316)**	**(3 857)**
2015 Net*	**330**	**1 104**	**5 497**	**4 836**	**7 838**	**12 879**	**32 484**

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

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

Loan book, arrears and provision for doubtful debts

8% growth in loans and advances

The gross loan book grew by R2.7 billion to R36.3 billion. The increase in gross loans and advances was 8%, marginally less than the 10% experienced in 2014.

Ongoing tightening of credit granting criteria

The slower growth is due to continued tightening of credit granting criteria which reduces sales but also reduces bad debt thereby increasing profitability. During the year we implemented a number of adjustments to our credit granting parameters, the most significant being in October 2014.

These adjustments were aimed at limiting credit risk and identifying pockets of good loan clients with a lower probability of default. We have improved the predictive ability of our score cards.

This tightening reduced the overall term of the book and boosted the average loan size. At the end of February 2015 the weighted average outstanding term of the loan book was 43 months (2014: 45 months). The average loan size increased from R6 003 to R6 887. The total number of loans granted during the year declined from 3.0 million to 2.8 million. Fewer short-term loans were sold during the year.

Gross loans and advances with terms longer than 12 months continued to comprise most of the book at 95% compared to 96% at February 2014. The 61-84 month loan book accounts for 39% (2014: 40%) of the gross loan book.

Continued prudence in provisioning

Our provisioning remains prudent and our write-off policy remains unchanged. We continue to reflect arrears and provisions on a client basis. Where a client has multiple loans and one of them becomes past due, the outstanding balances on all the client's loans are included in arrears. After 90 days all that client's outstanding balances on all loans are written off.

10% decrease in arrears

Arrears decreased from R2.2 billion at the end of February 2014 to R2.0 billion, a decrease of 10%. Arrears as a percentage of gross loans and advances decreased from 6.5% at the end of February 2014 to 5.4%. Arrears trended lower throughout the year and the decrease in arrears as a percentage of gross loans and advances reflects an overall improvement in the quality of the loan book.

6% increase in impairment provisions

The impairment provision increased 6% to R3.9 billion and represents 10.6% of gross loans and advances compared to 10.8% at the end of February 2014. The increase reflects our cautious view on provisions as although arrears declined by 10% provisioning levels were increased by 6%. Our statistical model factored in the lower arrears experience over the past twelve months and projected a smaller provisioning requirement but management remained conservative in their approach by supplementing the model generated provision with overlays of R264 million.

		Aug 2013	Feb 2014	Aug 2014	Feb 2015
Gross loans and advances	R'm	32 641	33 688	35 084	**36 339**
Loans past due (arrears)	R'm	1 799	2 174	1 935	**1 964**
Arrears to gross loans and advances	%	5.5	6.5	5.5	**5.4**
Provision for doubtful debts	R'm	3 184	3 637	3 763	**3 857**
Provision for doubtful debts to gross loans and advances	%	9.8	10.8	10.7	**10.6**
Provision/arrears coverage ratio(1)	%	177	167	194	**196**
Arrears and arrears subsequently rescheduled and now current in the past 6 months	R'm	2 634	2 921	2 680	**2 848**
Arrears and arrears subsequently rescheduled and now current in the past 6 months to gross loans and advances	%	8.1	8.7	7.6	**7.8**
Arrears and arrears subsequently rescheduled and now current in the past 6 months coverage ratio(1)	%	121	125	140	**135**

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

Rescheduled accounts

We continue to closely monitor rescheduled accounts. As amending a new contract does not necessarily remove the risk, we have always carried a higher provision on current rescheduled loans than the rest of the current book. During the year we increased our provisioning on the higher risk class of arrears, which were rescheduled in the past six months, from 33% in 2014 to 41% at the end of 2015.

The breakdown of the loan book between current loans, arrears subsequently rescheduled in the past six months and now current, and loans in arrears is set out in the table below.

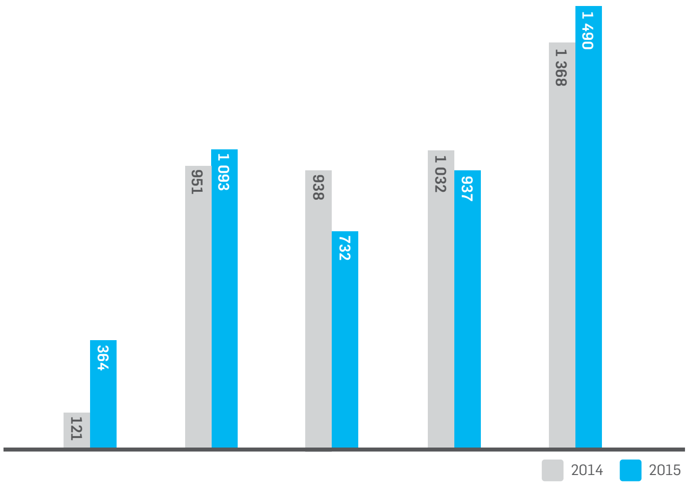
R'm	2015	%	2014	%
Gross	**33 492**		30 767	
Impairment	**(2 335)**	7%	(2 073)	7%
Current	**31 159**		28 694	
Gross	**883**		747	
Impairment	**(366)**	42%	(246)	33%
Current – arrears rescheduled in the past six months	**517**		501	
Gross	**1 964**		2 174	
Impairment	**(1 156)**	59%	1 318	61%
Arrears	**808**		856	
Total gross	**36 339**		33 690	
Total impairment	**(3 857)**		(3 637)	
Total net	**32 482**		30 053	

Loan impairment expense

The net loan impairment expense was R4.0 billion (2014: R4.0 billion) and is 11.5% of average gross loans and advances, an improvement on the 12.4% in 2014. The impairment charge comprises bad debts written off, the movement in provisions for bad debts ('impairment allowance') and bad debts recovered. Bad debts written-off (excluding provision movements and recoveries) were R4.4 billion compared to R3.5 billion for the 2014 financial year.

R'm	2015	2014
Bad debts	**4 396**	3 496
Movement in impairment allowance	**220**	914
Bad debts recovered	**(602)**	(434)
Net impairment charge	**4 014**	3 976

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



	(Months)					
	1-12	13-36	37-48	49-60	61-84	Total
2014	121	951	938	1 032	1 368	4 410
2015	**364**	**1093**	**732**	**937**	**1 490**	**4 616**

Lending conditions remain challenging. The reasons for the higher write-offs were the economic challenges mentioned at the start of this report but also the expected development to the write- off expense for loans that were sold in prior years. Although bad debts written off increased, the rate of increase slowed to 23% compared to the 99% in 2014. Overall the book benefited from efforts to reduce arrears.

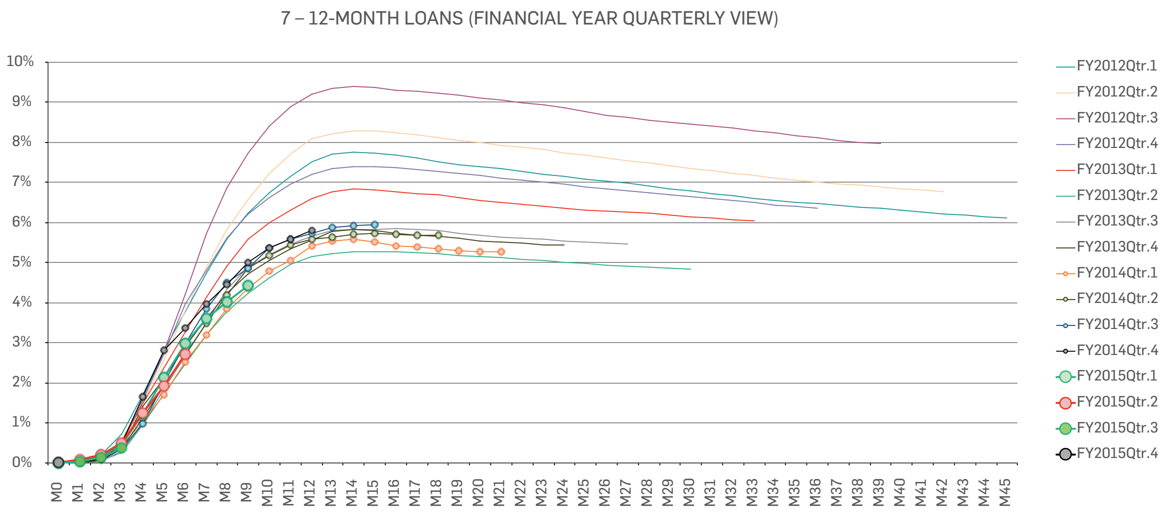
A high volume of system changes carries with it an element of operational risk as incorrect implementation can lead to credit losses. In 2015 a significant focus was placed on ensuring that changes to credit systems and other systems that can affect collection processes were thoroughly planned, tested (including robust scenario testing) and closely monitored post-implementation. This has helped to limit operational related credit losses. This approach yielded returns especially over the seasonally difficult holiday period when a significant effort by our information technology and pay date management teams reduced seasonal arrears.

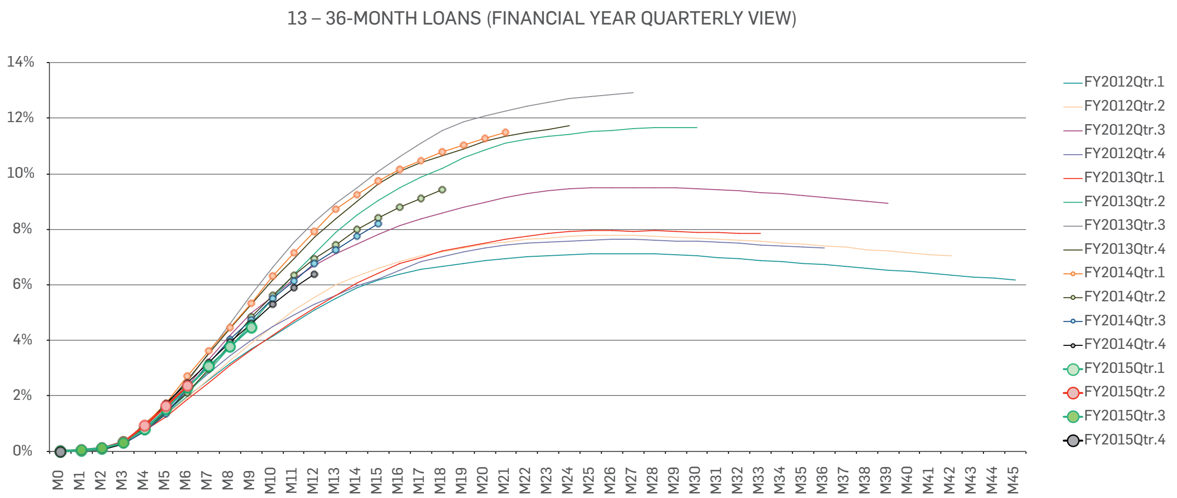
The provisions charge was R220 million compared to R914 million in the previous year. This does not mean that we were less conservative in provisioning. The book required a lower level of provisioning as the arrears experienced during the 2015 year indicate that the loan book is performing better, requiring a smaller increase.

The better credit result is also the impact of a continued and ongoing focus on centralised collection processes. This included changes in the strategic approach to collections. The collections environment was reorganised and additional senior expertise acquired. The business intelligence team was deployed to improve the reporting on the collections environment. Bad debt recoveries improved from R434 million to R602 million.

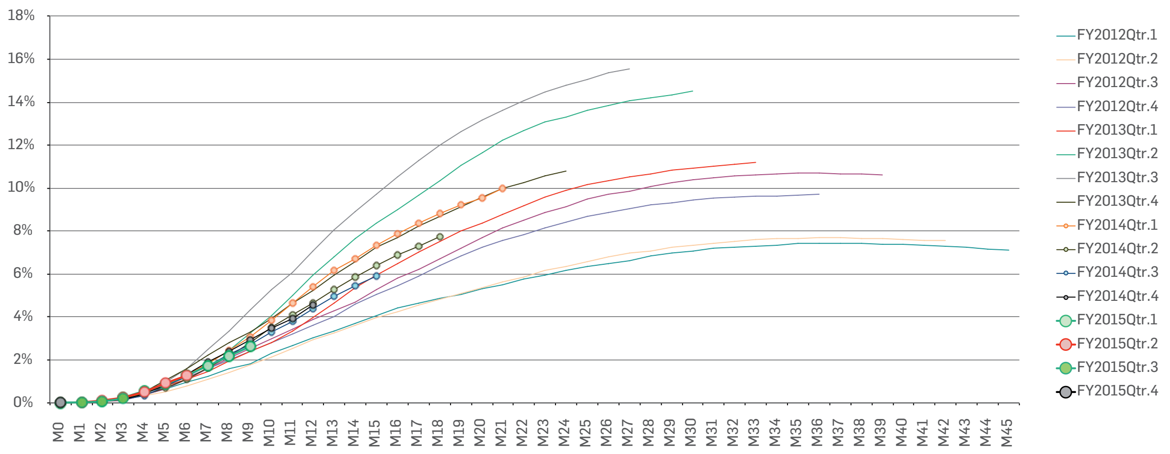
Vintage graphs

These vintage graphs express the balance at risk at time of write-off as a percentage of the total original planned instalments for the loans granted in a given quarter.

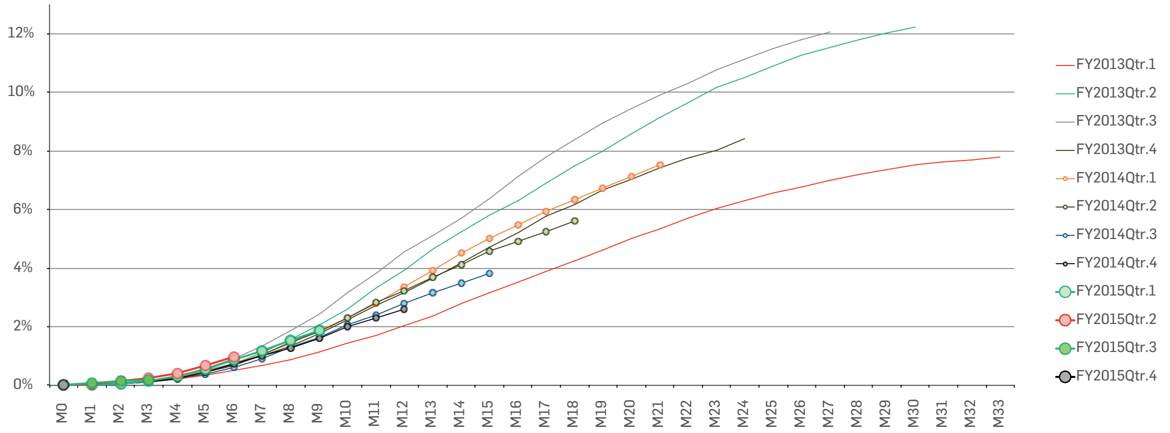




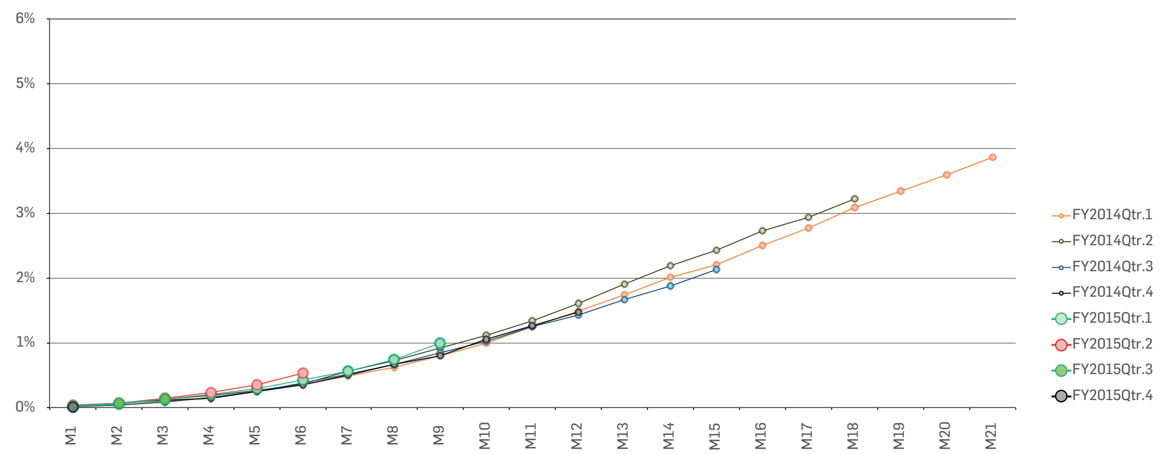
37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



49 – 60-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



61 – 84-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



Transacting

Net transaction fee income of R2.6 billion

Net transaction fee income grew by 35% to R2.6 billion compared to R1.9 billion in the 2014 financial year. Net transaction fee income amounted to 34% of net banking income after impairment charges, up from 32% for the 2014 financial year. The 55% target for net transaction fee income as a percentage of banking operating expenses by 2016 was exceeded at 62% (2014: 59%). Management aims to maintain this target of 55% for the next two years.

Growth in net transaction fee income in 2016 will be impacted by new rules capping the interbank and merchant fees earned by banks. These became effective on 17 March 2015. Increased transaction volumes in 2016 will offset the impact of this adjustment.

Growth was driven by a continued increase in clients and the expansion of Capitec Bank's distribution network and access to digital channels. The branch network was expanded by increasing the capacity of existing branches, adding more consultant workstations and expanding the branch network. Gross transaction fee income amounted to R3.7 billion (2014: R2.8 billion) and increased by 32% (2014: 33%) while transaction fee expenses, which consist of interchange charges from other banks and service providers, grew by 24% (2014: 14%) to R1.1 billion (2014: R860 million).

A total of 6.2 million active clients access Capitec Bank's money management solutions through the branch network, that grew to 668 branches (2014: 629) countrywide; a total of 3 418 own and partnership ATMs (2014: 2 918); a network of national (Saswitch) and international ATMs of other financial institutions; mobile branches; internet banking; mobile banking that can be used to purchase airtime and electricity; purchases at own POS devices; a network of national and international POS devices of other financial institutions and cash withdrawals and money transfers at retail partners. Mobile clients grew to 3.4 million.

Funding

Debt-to-equity ratio of 3.7:1

The debt-to-equity ratio remained constant at 3.7:1 measured year-on-year from 2014. Total deposit funding increased by R5.8 billion (2014: R6.4 billion) to R41.2 billion. Retail deposits increased 27% or R6.4 billion to R30.0 billion. Retail deposits grew more strongly in the second six months, increasing by R3.6 billion compared to the R3.0 billion of the first six months despite the seasonal holiday period when balances are drawn down. Wholesale funding declined by a net R0.8 billion.

Retail call deposits grew strongly

Retail call savings grew by 32% from R14.6 billion to R19.3 billion. The number of savings accounts increased by 23% and the average balance per account increased by 8% when compared to the end of February 2014. Expansion by Capitec Bank into shopping malls has improved Capitec Bank's access to the retail deposit market.

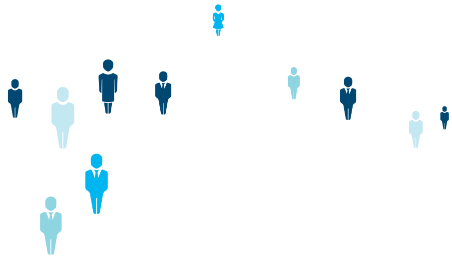
Retail fixed savings now 50% of term funding

Retail fixed savings grew to R10.7 billion, a growth of 19%. The contribution to the fixed-term funding mix is now 50% as Capitec Bank has not needed to aggressively grow wholesale term funding since 2013. The weighted average maturity of retail fixed funding was 17 months at the end of February 2015 (2014: 18 months). The number of accounts grew by 22% and the average balance per account declined slightly by 2% compared to February 2014.

Wholesale funding

The value of wholesale deposits declined from R11.7 billion in 2014 to R10.9 billion as instruments matured. The curatorship of African Bank resulted in a decline in general debt issuance in the listed bond and over the counter markets. Risk aversion by funders resulted in spreads widening and liquidity supply to the market reducing.

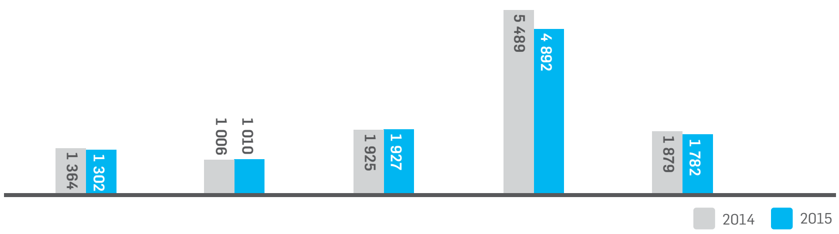
Day-to-day operations at Capitec Bank were unaffected by the change in sentiment as the bank is conservative with liquidity, having a good match of longer-term assets with long-term funding and healthy liquidity buffers. In the last six months we began to roll some term funding agreements. We also increased the tenor of some agreements that were due to mature in the next 12 months, where we considered the price of doing so to be fair. A total value of R744 million of funding was rolled and extended, increasing the average term of that funding by 30 months. At year-end the weighted average maturity of all wholesale funding was 27 months (2014: 36 months).



Interest rate exposure on wholesale funding hedged

In 2015 we swapped most of the remaining floating rate debt instruments to fixed interest rates. At February 2015 the balance of floating rate debt instruments that were unhedged as a percentage of the total wholesale funding book was 3% (2014: 23%). The composition of wholesale funding by funding instrument is illustrated in the following graph.

WHOLESALE FUNDING BY NATURE (R'm)

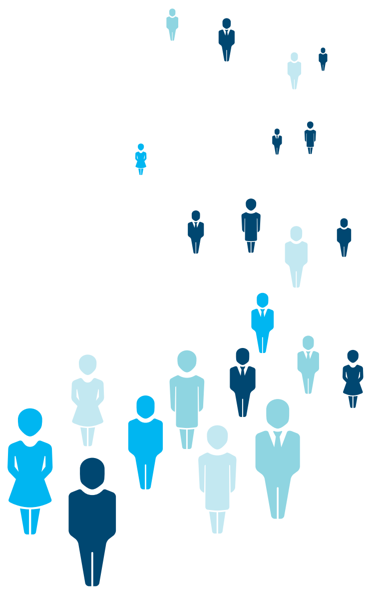


	Local and international bilaterals	Subordinated debt – unlisted bonds	Subordinated debt – listed bonds	Listed senior bonds	Other unlisted negotiable instruments	Total
2014	1 364	1 006	1 925	5 489	1 879	11 663
2015	**1 302**	**1 010**	**1 927**	**4 892**	**1 782**	**10 913**

37% of balance sheet assets invested in cash and highly liquid instruments

Surplus funding and liquidity buffers are invested in liquid and high-quality, interest-bearing instruments, selected to minimise the net carrying cost of surplus funds. A total 37% of the balance sheet is invested in these assets (2014: 31%). These assets comprise, inter alia, a mix of operational cash items (for example cash in ATMs and in drop safes), cash on call balances, investments in national treasury bills, money market unit trusts and fixed deposit and notice deposits of banks.

The treasury department manages the composition of the cash and investments portfolio and the split between cash assets and longer-dated investments based on operational needs, compliance requirements of the Banks Act and internal policies governing the management of assets and liabilities. The weighted average remaining maturity of the cash portfolio at 28 February 2015 was 72 days. The balance sheet categorisation for cash and cash equivalents is based on whether instruments have an original contractual maturity of less than three months. None of the longer-term investments have an original contractual maturity of longer than one year.



Liquidity

Conservative liquidity policy maintained

There has been no change in our liquidity policy over the past year. Management's liquidity philosophy remains cautious and conservative. The management of liquidity continues to take preference over the optimisation of profits. This conservatism at times results in the holding of cash in excess of immediate operational requirements. Our approach stood us in good stead, as we had no shortage of liquidity in the period immediately following the significant market events of August 2014. Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due.

Compliance with new Basel 3 liquidity ratios

Capitec Bank continues to comfortably comply with the two new Basel 3 liquidity ratios, the liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR'). Compliance with the LCR came into effect on 1 January 2015, with a minimum required ratio of 60%, increasing to 100% by 2019. The bank LCR was 1 210% (2014: 1 635%*). The decrease is due to lower investment in national treasury bills and greater investment in bank deposit products. Compliance with a NSFR of 100% is required from 2018. The bank NSFR was 138% (2014: 131%). The increase is due to the strong retail deposit growth, which has a high contribution percentage to the stable funding part of the ratio.

**This comparative was restated to reflect the final calibration decisions made by the Basel Committee during 2014 effective January 2015*

Capital

Capital is adequate

Capitec Bank remains well capitalised with a capital adequacy ratio of 36.3% (2014: 39.5%). The appropriation of retained earnings is adequately funding the growth in the retail lending book. The retail loan book decreased the capital adequacy ratio by 2.3% and retained earnings (2015 profit less dividends paid and reserved for) increased the capital adequacy ratio by 4.7%.

The main need for capital came from the investment made in cash and short-term investments which offer better yields and decreased the capital adequacy ratio by 4.1%.

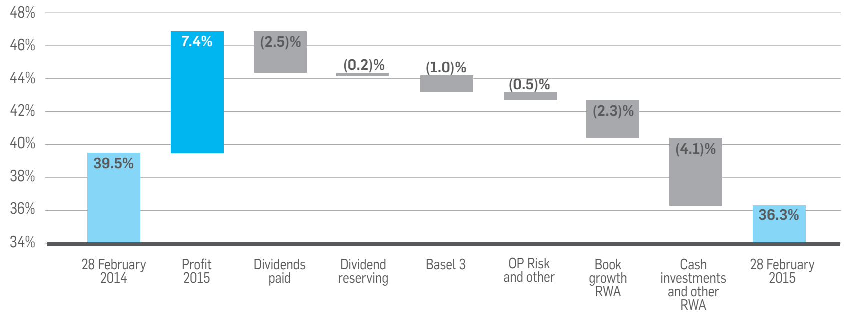
A total of R52 million of non-qualifying perpetual preference shares were repurchased during the year and replaced with less expensive funding. Lack of clarity in the market regarding the most appropriate terms and conditions for issuing new Basel 3 compliant preference share and subordinated debt instruments remains. Therefore, we maintain a conservative capital position as non-qualifying Basel 3 preference share and subordinated debt instruments continue to phase out. The core equity ratio is 29.1% (2014: 29.9%).

Credit rating

Following African Bank being placed under curatorship, Moody's downgraded Capitec Bank's international deposit ratings on 15 August 2014 to Ba2/NP from Baa3/P-3 and its national scale ratings to Baa1.za/P-2.za from A2.za/P-1.za. All these ratings were also placed on review for further downgrade. Later in August 2014, four of the largest South African banks had their ratings dropped by one notch, followed by a further notch in November 2014. On 11 November 2014, Capitec Bank's ratings were confirmed as stated in August 2014, but the ratings outlook was changed from 'on review for downgrade' to 'stable'.

Moody's view in November 2014 was that Capitec Bank's Ba2 deposit ratings adequately balance the bank's strong loss-absorption capacity and comprehensive underwriting and provisioning policies against the current risks in the operating environment in South Africa's unsecured lending market.

ANNUAL CHANGE IN CAR%



Cost structure

Cost-to-income ratio increased to 36%

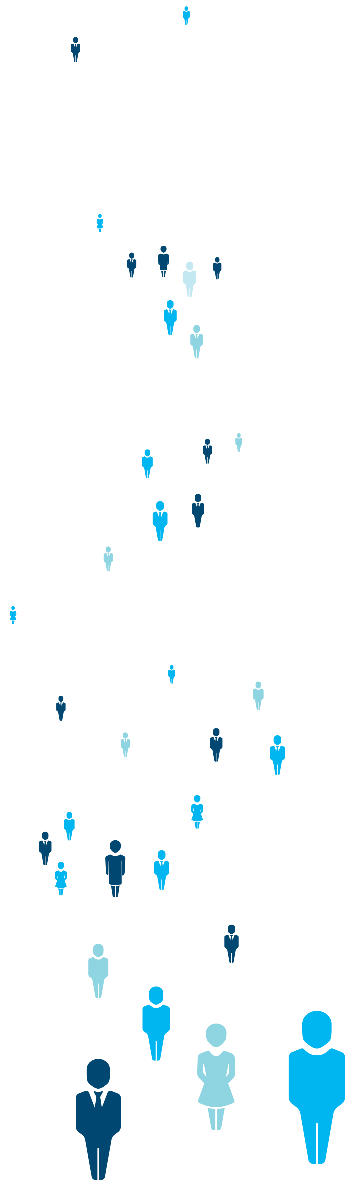
The cost-to-income ratio increased from 33% for 2014 to 36% in 2015. Income from banking operations increased by 15%, while operating expenses increased by 27%. The growth in income from banking operations is dealt with in the sections on loan revenue and transacting. Total banking operating expenses increased to R4.2 billion from R3.3 billion.

The main cost drivers of the increase were, increasing the number of employees at existing branches to improve service levels and variable performance-based incentive costs for employees. Basic employee salary costs increased by R232 million and variable performance-based incentive costs by R461 million. The increase in variable incentive costs was due to all employees achieving the earnings per share growth targets and the rise in the share price from R183.75 at February 2014 to R410.00 at February 2015 which increased the cost of share options and share appreciation rights for the bank. The total growth in incentive costs comprised R254 million for bonuses, R104 million for share appreciation rights and R103 million for share options accounted for using the revaluation method in terms of IFRS2.

Other contributing cost factors were expansion of the branch network by 39 branches, which has increased the related premises expenses, depreciation, consumables and staff costs. Increased training cost was incurred as more staff went through our induction programmes to meet the service demand in branches.

The Capitec Bank branch network grew to 668. Based on the average number of income-generating outlets for each year, the operating expense per outlet for the 2015 financial year amounted to R6.4 million compared to R5.5 million for the 2014 financial year.

Expenses remained within predefined limits and cost control within the company remains strong.



Regulation

Regulatory change continues to be significant. The table below summarises the status of these developments and their impact on Capitec Bank.

Regulator	Development	Impact
SARB	Changes have been made to card interchange fees	Transaction fee revenues will be impacted in 2016, but expected growth in business volume will offset this.
SARB	Review of non-authenticated early debit order collections environment	Capitec Bank is involved in the working groups that are part of developing a revised solution for the NAEDO environment. The impact of any changes will be addressed in our processes.
SARB	• Review of the various methods used for calculating the capital requirements for credit risk • Introduction of a method for holding capital on interest rate risk positions	Capitec Bank is involved in the working groups that are part of assessing these developments and any changes will be addressed in our processes.
NCR	Capping of fees on credit life and retrenchment insurance	Capitec Bank does not charge credit life or retrenchment insurance. The impact will be beneficial for Capitec Bank as this will result in many credit providers revising their risk appetites lower. It will become more difficult for clients with existing debt to over-indebt themselves.
NCR	Review of interest and fees	Parliament has indicated that a review should be done of the current levels of interest and fees. Various quantitative studies are being conducted. There are no further developments at this time.
NCR	Emolument Attachment Orders ('EAOs')	The use of EAOs is being tested in the High Court. We monitor developments and will factor any developments into our plans.
NCR	Affordability guidelines	New regulations dealing with the assessment of affordability under the National Credit Act, 2005, were published on 13 March 2015. The regulations came into effect on date of publication. Although we comply substantially, adjustments are being implemented to achieve full compliance. We support proper regulation enhancing sustainability of the credit industry.

Dividends

The board of directors considers the capital and funding requirements of the business before declaring dividends. The dividend cover for the past five years has been 2.6.

André du Plessis
Chief financial officer

How do we lead? 02

Appropriate strategy, focused leadership, healthy corporate values and responding to stakeholders' needs combine to create sustained value in the long term.

Focused leadership

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

Board of directors

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

Non-executive directors

Michiel Scholtz du Pré le Roux (65)
BComm LLB
Chairman of the board and the directors' affairs committee

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

Michiel was appointed to Capitec Bank's board on 6 April 2000.

Petrus Johannes Mouton (38)
BComm (Maths)
Chairman of the social and ethics committee

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

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

Riaan Stassen (61)
BComm (Hons), CA(SA)

Riaan joined Capitec Bank as managing director in 2000 and served as chief executive officer of Capitec Bank from March 2004 until his retirement on 31 December 2013. He gained extensive experience in wholesale distribution and banking and held senior positions in both environments before joining Capitec Bank. Riaan was awarded the Cape Times KPMG Business Personality of the Year award in 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance. He remains involved with Capitec Bank as a non-executive director.

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

Independent non-executive directors

Reitumetse Jacqueline Huntley (52)
BProc LLB

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

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

John David McKenzie (68)
BSc (Chemical Eng), MA
Chairman of the risk and capital management committee

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

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

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

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

Nonhlanhla Sylvia Mjoli-Mncube (56) BA, MA (City and regional planning)
Lead independent director

Nonhlanhla manages her own company, Mjoli Development Group, and was the economic advisor to a former Deputy President of South Africa. She has worked as a town and regional planner in South Africa and as a survey research supervisor at Washington State University. She was an executive director of a subsidiary of Murray & Roberts.

She was the chairman of the National Urban Reconstruction and Housing Agency (NURCHA), the Rural Housing Loan Fund, Women for Housing and the Open Society Institute in South Africa. She is a fellow of the Massachusetts Institute of Technology (MIT, USA) and a Harvard University Leadership alumnus.

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

Nonhlanhla was appointed to Capitec Bank's board on 26 January 2004.

Chris Adriaan Otto (65)
BComm LLB
Chairman of the human resources and remuneration committee

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

Chris was the acting chairman of the audit committee for the February and March 2015 meetings.

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

Gerrit Pretorius (66)
BSc, BEng, LLB, PMD

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

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

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

Jacobus Pieter van der Merwe (66)
BA, CTA, CA(SA)
Chairman of the audit committee (retired 20 March 2015)

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

Pieter was appointed to Capitec Bank's board on 27 September 2007. Pieter resigned from the Capitec Bank board with effect from 20 March 2015. The board thank him for his valued contribution during his tenure.

Jean Pierre Verster (34)
Hons.B.Compt, CA(SA), CFA, CAIA
Chairman of the audit committee (appointed 23 March 2015)

Jean Pierre is a chartered accountant and currently an investment analyst. Previously, he was an analyst and portfolio manager at Melville Douglas Investment Management. Prior to entering the investment management industry, he fulfilled various roles in the Standard Bank Group, including as a credit and corporate research analyst in its Global Markets Research division, where he analysed companies' financial position from a credit perspective. He commenced his career in 2005 as a financial manager in the insurance services environment and in 2006 he gained experience as an internal auditor in the retail banking environment.

Executive directors

Gerhardus Metselaar Fourie (51)
BComm (Hons), MBA
Chief executive officer (CEO)

Gerrie has been head of operations at Capitec Bank since 2000 and was appointed as chief executive officer of Capitec Bank effective 1 January 2014. He commenced his career at Stellenbosch Farmers' Winery in 1987 in the financial planning department, following which he was appointed as the area general manager of KwaZulu-Natal and later Gauteng.

Gerrie was appointed to Capitec Bank's board on 20 September 2013.

André Pierre du Plessis (53)
BComm (Hons), CA(SA)
Chief financial officer (CFO)

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

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

Executive management committee

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

Jacobus Everhardus Carstens (46)
BCompt (Hons), CA(SA)
Executive: credit

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

Carl Gustav Fischer (58)
BComm (Hons), MBA
Executive: marketing and corporate affairs

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

Hendrik Albertus Jacobus Lourens (49)
BComm (Hons), CA(SA)
Executive: operations

Henk joined Capitec Bank's predecessor in 1999 as head of the branch acquisitions department. He was appointed as operations manager responsible for the Northern Cape, Western Cape, Eastern Cape, Free State and KwaZulu-Natal in 2001 which position he held until 2007 when he became the national sales manager. Henk was appointed as executive of operations effective 1 January 2014. Before joining Capitec Bank, Henk was the financial director of Group Five Building – Western Cape. He commenced his career with Ernest and Young.

Nathan Stephen Tlaweng Motjuwadi (48)
BA (Hons), UED, MBA
Executive: human resources

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

André Olivier (47)
BComm (Hons), CA(SA)
Executive: card services and business development

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

Christiaan Oosthuizen (60)
Executive: information technology

Chris joined Capitec Bank as head of information technology in 2000. He previously held the position of chief executive of information technology at Boland PKS, where he was employed from 1976 to 2000. Chris informed the board last year that he wishes to retire at the end of May 2015. His successor, Wim de Bruyn, joined Capitec Bank on 1 November 2014.

Willem de Bruyn (44)
BSc (Hons), (Computer Science)
Executive: information technology

Wim joined Capitec Bank on 1 November 2014 to allow sufficient time to familiarise himself with Capitec Bank's technology platforms. He was chief information officer at Standard Bank until 2014, responsible for personal and business banking, in South Africa and across 18 African countries. He has been extensively involved in retail banking strategy, has international experience in information technology management and has implemented large scale projects during his career. He started his career with Standard Bank as a software developer in 1992.

Christian George van Schalkwyk (60) BComm LLB, CA(SA)
Executive: risk management and company secretary

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

Leonardus Venter (53)
BA (Hons), MA (Industrial psychology)
Executive: business support centre

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

Development members

There are two development seats on the executive management committee to provide senior employees with the opportunity to gain experience at executive level. The incumbents rotate annually and the seats were filled by Uvesh Betchu, operations manager: head office and Marthinus Janse van Rensburg, head: legal department during the 2015 financial year.

The development members for the 2016 financial year are Francois Viviers, Brand Manager and Neptal Khoza, head: corporate social investment.

Corporate values

Ethics

Capitec Bank, especially senior management, is committed to ethical behaviour. Through our values we build trust and long-term relationships, both externally with clients and internally with colleagues. The values that govern the behaviour of our employees in their interactions with clients and each other are:

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

These corporate values are manifested in a range of policies that specify ethical conduct expected from all employees and are communicated to employees on various occasions. Matters such as our commitment to legal and regulatory compliance, actions to deal with bribery and guidelines on receiving and giving of gifts, are addressed by these policies that are reviewed on a regular basis. Facilities are constantly improved to ease the monitoring and regulating of the appropriateness of employee behaviour. No material breaches with regard to ethical behaviour have been reported during the period.

Human rights

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

Extract from Capitec Bank's statement of intent:

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

our core values

- simplicity
- affordability
- accessibility
- personal service

03

What is Capitec Bank's integrated risk management process?

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

Maintaining flat reporting lines is a key objective in designing the governance structure. This is to prevent the inefficiency that often accompanies the creation of multiple committees.

Integrated risk framework

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

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

Strategic, economic, operational, social and environmental objectives together with the material issues identified through interaction with stakeholders form the basis for IRM. IRM is supported by ethics, performance metrics and incentives and the leadership provided through the governance structure.

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

The primary objectives of the framework are to:

- protect against possible losses;
- integrate risk management at all levels of decision-making;
- anticipate and mitigate risk events before they become a reality;
- ensure earnings stability; and
- optimise the use of capital

Governance

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

Maintaining flat reporting lines is a key objective in designing the governance structure. This is to prevent the inefficiency that often accompanies the creation of multiple committees. Having flat reporting lines encourages a culture where risks are identified and dealt with timeously as they arise, rather than waiting for a committee meeting.

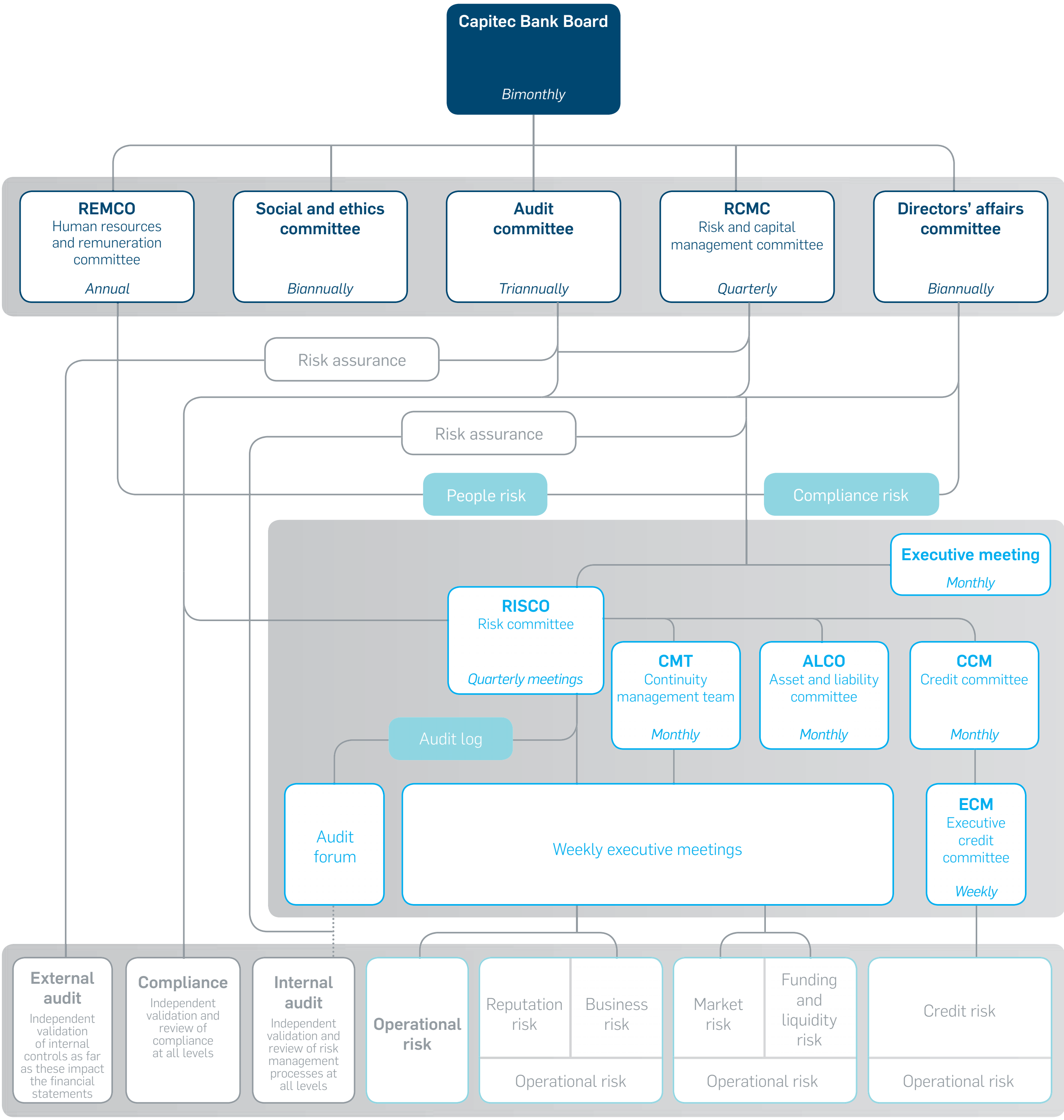
All the key principles set by King III have been applied during the reporting period, with minor exceptions.

Shareholders are referred to the website (www.capitecbank.co.za/investor-relations) where full details regarding the application of the principles set by King III are provided.

Governance structure

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

GOVERNANCE STRUCTURE



The board of directors

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

Composition

A board-approved policy specifies the governance principles that ensure a balance of power and authority at board level. The board comprises a majority of nine non-executive directors, six of whom are independent non-executive directors.

The composition of the board ensures that there is a balance of power and authority so that no one individual has unfettered decision-making powers. The roles of chairman and CEO are separated and the chairman is a non-executive director who is considered by the board to best be able to fulfil the role of chairman.

Assessment of independence

The independence of independent non-executive directors that have served for a period of nine years and factors that may impair their independence are evaluated annually. The board is satisfied that the independence of these non-executive directors remains unaffected.

Appointment process

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

Development

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

Performance assessment

The board is assessed annually via an internally conducted process. In the past financial year, the performance and contribution of each director as well as the chairman of the board and the chairmen of the respective board committees was reviewed. The board was comfortable with the results of the assessment for the 2015 financial year and concluded that each board committee individually represents an appropriate mix of skill and experience.

The skills and expertise of the board are described in chapter 2 of this report.

Meetings and quorum

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

Committees

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

Board committee

Committee	Purpose	Composition	Quorum	Frequency and reporting
Audit committee	Responsible for financial disclosure and controls affecting this disclosure Custodians of corporate reporting, including the IR – oversees the extent, format, frequency, content, quality, reliability, completeness and integrity of the IR Considers the continued independence of the current auditor Recommends the appointment of external auditors, determines their fees and oversees the results of the external audit process Sets principles for the use of the external auditors for non-audit services	**Independent non-executive directors** JP van der Merwe (chairman – retired 20 March 2015) JP Verster (chairman – appointed 23 March 2015) JD McKenzie NS Mjoli-Mncube **Non-executive director** PJ Mouton* **Independent attendee** DG Malan (external audit partner – PricewaterhouseCoopers Inc.) **Management attendees** J-HC de Beer (compliance officer) AP du Plessis (CFO) JJ Gourrah (internal audit) GM Fourie (CEO) CG van Schalkwyk (executive: risk management) **By invitation** All directors	At least 50%, but not less than two members	Meets three times a year
Directors' affairs committee	Evaluation of board effectiveness Senior management and board succession planning Corporate governance	All non-executive directors	At least 50% of members	Meets twice a year
EXCO	Operational decision-making Implementation of board-approved strategic decisions Ongoing approvals of administrative nature	GM Fourie (CEO) AP du Plessis (CFO) JE Carstens (executive: credit) CG Fischer (executive: marketing and corporate affairs) HAJ Lourens (executive: operations) NST Motjuwadi (executive: human resources) A Olivier (executive: card services and business development) C Oosthuizen (executive: information technology) CG van Schalkwyk L Venter (executive: business support centre) Two annually elected development members	At least three of the following: CEO, CFO, exec: risk management and exec: operations or replacement members as appointed by the EXCO	Meets twice a week with an extended meeting once a month
Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	RCMC (see page 33) **Members of management** JE Carstens GM Fourie CG van Schalkwyk	Majority of members	Meets as required

** As at least three of the members of the audit committee are independent, the board is satisfied with the level of independence of this committee.*

Committee	Purpose	Composition	Quorum	Frequency and reporting
Risk and capital management committee (RCMC)	Assists the board in reviewing the risk management systems, processes and significant risks impacting the bank's capital and management thereof	**Independent non-executive directors** JD McKenzie (chairman) JP van der Merwe CA Otto **Non-executive directors** PJ Mouton R Stassen **Executive director** AP du Plessis **Management attendees** J-HC de Beer JE Carstens JL Delport (risk officer) JJ Gourrah GM Fourie CG van Schalkwyk	At least 50%, but not less than two members	Meets quarterly
REMCO	Determines directors' and senior executives' remuneration, levels of remuneration of all employees and adjustment thereof Additional remuneration such as bonuses, incentives and share option incentives	**Independent non-executive directors** CA Otto (chairman) G Pretorius **Non-executive director** MS du P le Roux R Stassen (invitee) **Management attendees** GM Fourie NST Motjuwadi	At least 50%, but not less than two members	Meets at least once a year
Social and ethics committee	Promotes the collective well-being of society Facilitates the sustainable growth of the Capitec Bank Considers matters relating to socio-economic development, equity and empowerment, good corporate citizenship and the environment	**Non-executive director** PJ Mouton (chairman) **Independent non-executive director** RJ Huntley **Management member** CG van Schalkwyk **Management attendees** CG Fischer NST Motjuwadi	At least 50%, but not less than two members	Meets twice a year

Attendance of meetings by board members

Committee	Audit	Board	Human resources and remu-neration	Risk and capital manage-ment	Social and ethics
Number of meetings	**3**	**6**	**2**	**5**	**2**
MS du P le Roux	3[(1)]	6	2	1[(1)]	–
AP du Plessis	3[(1)]	6	–	5	–
GM Fourie	3[(1)]	6	1[(1)]	5[(1)]	–
RJ Huntley	2[(1)]	5	–	–	1
JD McKenzie	3	6	–	4	–
NS Mjoli-Mncube	3	6	–	–	–
PJ Mouton	3	6	–	5	2
CA Otto	3[(1)]	6	2	5	–
G Pretorius	1[(1)]	6	1	–	–
R Stassen	3[(1)]	6	1[(1)]	4	–
JP van der Merwe	2	4	–	5	–

[(1)] *Attendance by invitation.*

Company secretary

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

The qualifications and expertise of the company secretary are detailed in chapter 2 of this report. The directors' affairs committee has reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and has noted that the company secretary performed all formalities and substantive duties timeously and in an appropriate manner.

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

Conflict of interest and dealing in securities

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

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

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

Independent assurance

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

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

External audit

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

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines the audit fee. Non-audit services rendered by the external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee, limiting such expense to 40% of the annual audit fee. Details of amounts paid to the external auditor are included in note 24 to the annual financial statements.

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

Internal audit

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

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

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

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

Internal audit is risk-based and the internal auditors submit an annual assessment to the audit committee on the system of internal controls. Significant emphasis is placed on the effective implementation and efficiency of systems. The operations environment is closely monitored and assurance derived that controls are adequate and operating effectively.

Emphasis is placed on the development of centralised monitoring and continuous auditing. In this process, any deficiency detected in governance is referred to management for action. The implementation of recommendations emanating from audits is measured.

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

The internal audit approach places significant emphasis on the effective implementation and efficiency of systems.

Risk universe

The RCMC oversees risk management in the organisation. The committee has a board-approved charter in terms of which it assists the board in reviewing risk identification, evaluation and mitigation processes. This ensures that risk assessment is an ongoing process.

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

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

Risk ownership

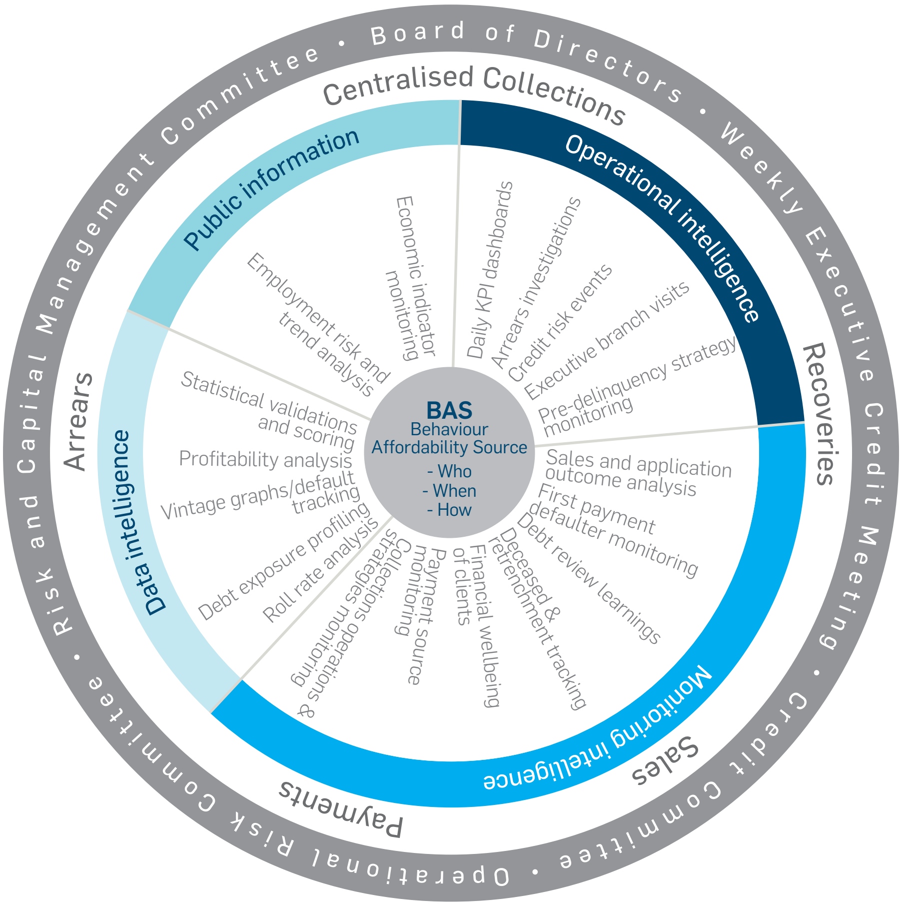
Heads of business carry the primary responsibility for the risks in the organisation, in particular with respect to identifying and managing risk appropriately.

Risk control

The risk management department supports the business heads by providing independent oversight and monitoring across the organisation on behalf of the board and relevant committees. Risk management is headed by an executive risk officer who owns and maintains risk frameworks, maintains risk governance structures and manages regulatory relationships with regard to risk matters.

Independent assurance

Internal audit provides independent assurance of the adequacy and effectiveness of risk management practices. The head of internal audit reports to the board through the audit committee chairman. External audit provides independent assurance on the effectiveness of internal controls as far as these impact the financial statements.



Reputation risk

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

Effective management of all other risk groups in conjunction with an effective media and communication strategy, ensures that reputation risk is managed appropriately. In terms of the management approach, reputation risk is dealt with by the RCMC through the RISCO, a subcommittee of the RCMC. It is managed on an ongoing basis as specified below.

Centralised policy on media

A formal disclosure and communication policy exist that limits media spokes-persons to the CEO, CFO, executive: marketing and corporate affairs and the communications officer.

Daily media monitoring

Daily monitoring of public discussion regarding Capitec Bank on digital and non-digital media sources, including social networking sites occurs. Escalation and response occurs based on the level of traffic.

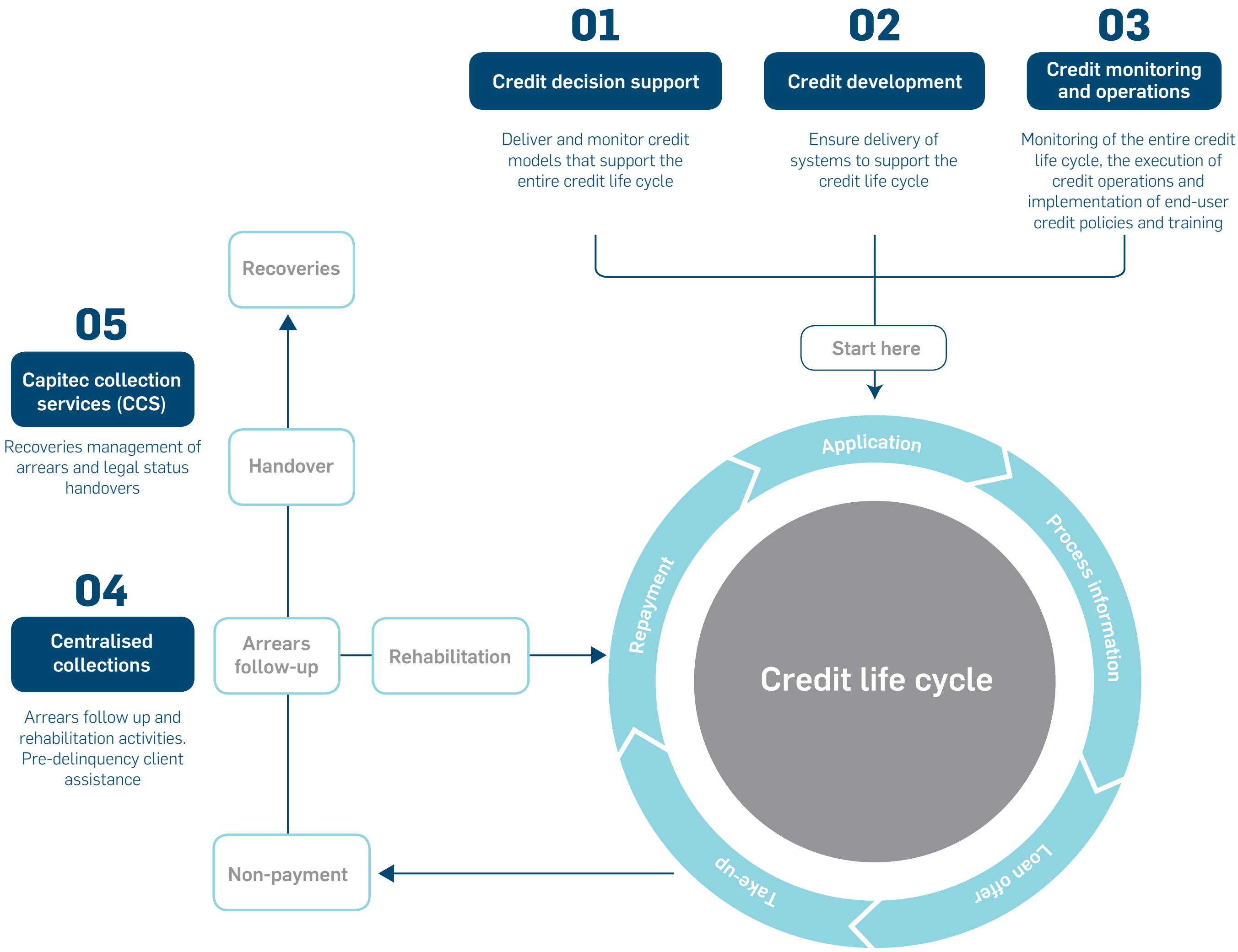
Credit risk

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

Governance

Credit risk management is overseen by the credit committee, a subcommittee of the RCMC. The composition of the credit committee includes a cross-section of management. The committee determines credit policy and meets monthly. At the meeting the activities of the credit division and operations, new business results, arrears, provisioning, recoveries and regulatory compliance are evaluated. Policies are reviewed annually in their entirety; however, they are monitored continuously and the executive credit committee recommends changes at credit committee meetings as and when required.

The executive credit committee meets at weekly intervals to monitor operational credit matters and workshop policy. Representation on the executive credit committee is broad, including the credit committee members and key senior financial management members.



Capitec Bank's credit model

The credit model and the policies and procedures that give effect to the model are reviewed and adjusted continuously. This ensures that the credit offer finds acceptance with clients and takes account of trends in the market, while performing within the credit risk appetite. Capitec Bank's approach to credit risk management encompasses every stage of the credit life cycle as detailed in the diagram above.

Granting credit

Credit granting is managed centrally. Centralised credit policy is coded into an automated rules engine that determines the term, amount and price of the loan offer to the client at the branch. The credit granting decision is based on the client's behaviour (willingness to pay), affordability (ability to pay) and source of payment (when, who and how).

The automated rules engine determines the credit offer based on the input into the system of information as described in the table that follows.

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

As a risk mitigation strategy, Capitec Bank insures the full outstanding amount of loan balances against the death and retrenchment of clients.

Collection

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

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

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

It accommodates administrative changes to loan agreements and assists clients experiencing difficulty in making their repayments. The original term of the loan agreement is altered as agreed by the client and the bank. This proactive engagement with clients mitigates the risk of credit losses and addresses the needs of clients.

All rescheduling is governed by the respective branch and centralised collections policies. Rescheduling rules are automated in the rules engine. For each reschedule, policy requires that a formal credit assessment be performed and that the new terms are contractually concluded. The available term extension options are limited, based on the circumstances and the original term of the loan.

Recovery

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

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

Capitec Bank insures loan balances against the death and retrenchment (for non-government) of clients and does not sell credit life insurance policies to clients.

Quality of new business	Credit daily dashboard	Roll rate analysis	Credit risk events log
First payment default reports are early indications of the quality of loans granted	Arrears are reported, analysed, tracked and followed up daily. This enables effective and responsive corrective action and assists with strategic considerations	Arrears trends for new and existing business are monitored using roll rates (these profiles are also submitted to the National Loans Register)	Credit risk events are registered on a central log
Vintage graphs are utilised as a measure that the quality of credit granted was in line with what was expected in terms of profitability	Deviations in an individual employer's arrears are investigated on a daily basis to determine if there is an employer problem (e.g. strikes, retrenchments), a pay-date problem or a NAEDO processing problem	Variations of the roll rate tables are utilised to understand the rehabilitation of accounts in arrears and to derive new credit granting rules and collection strategies	System flags drive appropriate mitigating action
Accept rates, taken-up rates and sales are broadcast and monitored daily from branch to bank levels and evaluated from all business perspectives	Daily reporting and monitoring of centralised collections key performance indicators	Payment profiles are the base building blocks of the loan impairment models and the unexpected loss calculations	
Quality control assessments of the affordability calculations by branches are performed centrally			

Monitoring
The credit monitoring and operations department is tasked with knowing the unsecured credit market in South Africa and sharing that knowledge systematically to improve the management of credit risk. Reporting input from all areas of the business is utilised for this purpose.

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

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

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

Models and scorecards are developed through data-driven analytics. External consulting experts are used from time to time, enabling benchmarking, so that models incorporate new relevant developments and technologies.

To ensure the ongoing strength and stability of the credit granting model monthly tests are performed. The key monthly measures used are:
- Gini coefficient (to assess the ability of the model to differentiate risk)
- Population Stability Indices and the Kolmogorov-Smirnoff Statistic (to assess stability)
- Bad rate tracking – to assess modelled expectation against actual experience
- Characteristic analysis of the main inputs (for example credit scores) using Gini and population stability measures.

The testing results are assessed against predefined minimum acceptable standards.

Daily critical monitoring of key regression scorecard variables (Internal and credit bureau variables) is performed to ensure early identification of data integrity issues and changing trends in the variables that require an immediate response.

Decision support, together with IT, ensures that scorecards and models are correctly implemented and monitors the effect of model adjustments. All models and strategies implemented are continuously reviewed to ensure that they are optimal and relevant in the context of a changing market.

The solutions provided have business benefits across the client credit risk life cycle and reports are created to gain insight into customer behaviour, market trends and a client's potential lifetime value.

Impairment provisions

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

All rescheduled loans are managed as a separate group of loans to enable accurate impairment assessment. The level of impairment on 'arrears rescheduled in the past six months' is higher than the impairment of loans classified as current. The performance of the rescheduled book is monitored closely by the credit committee.

Development

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

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

Capitec Bank endeavours to maintain good relationships with the regulatory authorities; the SARB and the NCR, and is represented on the following industry forums:

- CPA management committee, which deals with consumer credit data submitted to credit bureaus
- BASA: Heads of credit nominated work groups and debt review forums.

Counterparty credit risk

Capitec Bank has limited counterparty credit risk because it does not operate a trading book. The only exposures to counterparty credit risk are on hedges entered into to mitigate interest rate and currency risk in the banking book, and from time-to-time on resale investment transactions concluded as part of cash management activities. Refer also note 27 to the annual financial statements.

Investment credit risk

Capitec Bank has a low risk appetite regarding the investment of surplus cash and liquidity buffers. This cash is invested the wholesale money markets.

The treasury management department limits the weighted average maturity of the cash portfolio to 90 days with a limit on individual assets of 365 days and maintains a healthy stock of highly liquid investments such as South African National Treasury bills, SARB debentures and cash on call with highly rated banks. Other assets in the portfolio may include money market unit trusts of large fund managers (investing only in bank paper), fixed and notice deposit investments and occasional resale transactions and negotiable money market instruments of approved counterparties. The yield must be commensurate with any increase in risk. A hold-to-maturity approach is used.

Returns on the cash portfolio aim to exceed benchmark returns on the Short-Term Fixed Interest Index ('STeFI'). ALCO monitors the performance of the portfolio, monthly.

ALCO proposes a list of approved bank and money market counterparties with related limits which are approved by the RCMC and monitored by the credit committee. A separate large exposures committee evaluates and approves exposures to counterparties in accordance with the limits in the Banks Act.

Prudent with provisions, an arrears coverage ratio of

196%

Other credit risk

Corporate insurers

The selection of corporate insurers to insure the loan book against death and retrenchment and to cover property and casualty insurance needs is based on sufficient underwriting capacity and an appropriate reinsurance strategy.

Suppliers

The credit committee assesses and approves suppliers in accordance with the procurement policy, to limit prepayment risk on work-in-progress.

Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	28 Feb 2015	28 Feb 2014	28 Feb 2015	28 Feb 2014	28 Feb 2015	28 Feb 2014	%
On balance sheet							
Corporate[6]	**1 647 759**	895 174	**2 116 431**	606 992	**1 990 884**	606 992	100
Sovereign[7]	**3 921 671**	4 790 835	**3 361 552**	5 342 807	**3 361 552**	5 342 807	–
Banks (claims <3 months original maturity)	**2 745 699**	4 265 744	**2 411 373**	3 677 314	**2 411 373**	3 677 314	20
Banks (claims >3 months original maturity)	**5 455 252**	306 222	**5 849 613**	777 079	**5 849 613**	777 079	50
Banks (Derivatives >3 months A1 to Baa3)	**162 539**	177 802	**57 905**	223 746	**57 905**	223 746	50
Retail personal loans							
- performing	**33 853 475**	31 264 885	**33 478 111**	30 752 340	**33 478 111**	30 752 340	75
- impaired[8]	**2 673 922**	2 417 236	**2 847 588**	2 921 125	**2 847 588**	2 921 125	100
Subtotal	**50 460 317**	44 117 898	**50 122 574**	44 301 404	**49 997 027**	44 301 404	
Off balance sheet							
Retail personal loans							
- committed undrawn facilities[9]	**2 679**	5 398	**–**	5 250	**–**	5 250	75
- conditionally revocable commitments	**388 088**	398 689	**469 496**	440 423	**469 496**	440 423	–
Total Exposure	**50 851 084**	44 521 985	**50 592 070**	44 747 077	**50 466 523**	44 747 077	

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

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

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

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

(4) 'Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month 12 of the respective year-ends. All other items are the balances at year-end.

(5) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the Banks Act. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade, rating to a risk-weight percentage using the mapping table that follows. The risk weightings for retail exposures are specified directly in the banking regulations. A standard risk weight of 75% is applied to performing retail exposures while impaired exposures attract a standard 100% risk weight, net of allowed impairments.

(6) 85% (2014: 94%) of corporate aggregate gross year-end exposure relates to investments in money market unit trusts.

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

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

(9) These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet his contractual obligations or where the bank has determined that the client's credit risk profile has changed. 23.0% (2014: 21.3%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

Rating grades and related risk weights

Long-term credit assessment	Aaa to Aa3 %	A1 to A3 %	Baa1 to Baa3 %	Ba1 to B3 %	Below B3 %	Unrated %
Sovereigns	0	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Security firms	20	50	50	100	150	50
Banks: short-term claims	20	20	20	50	150	20
Security firms: short-term claims	20	20	20	50	150	20
Long-term credit assessment	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Below B3**		
Corporate entities	20	50	100	150		100
Short-term credit assessment	**P-1**	**P-2**	**P-3**	**Other**		
Banks and corporate entities	20	50	100	150		

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

Market risk

This is the risk of a potential decrease in stakeholder's value due to adverse changes in market prices and rates negatively impacting assets and liabilities.

These market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates.

Capitec Bank does not have a 'trading book' (as defined by Basel) that conducts investment banking related activities. Therefore, there is no exposure to trading positions on equities, bonds and commodities. Exposure to market risk is mainly due to interest rate risk arising on the retail banking activities (defined as the 'banking book' by Basel).

Governance

Market risk management is addressed, at a minimum, on a monthly basis by ALCO.

Interest rate risk

This is the risk that market-driven interest rates may adversely affect profitability and the value of the balance sheet.

Capitec Bank's interest rate repricing mismatch is the consequential result of key policy decisions to offer fixed interest rate retail term loans and to be conservative with liquidity.

This makes Capitec different to other retail banks in South Africa that operate mainly floating rate mortgage books and who consequently aim to minimise the impact of rate changes on the value of equity.

Fixed interest rate retail loans

The interest charged on all unsecured retail loans is based on fixed interest rates. This is done to protect loan clients from the effect of rising interest rates, ensuring that for the term of the client's loan their instalment amount does not change when rates rise.

When interest rates rise Capitec loan clients are protected from increasing instalments as their loans are contracted at fixed interest rates, so their instalments stay the same.

The impact of the liquidity strategy

The Capitec Bank approach to liquidity is to match longer-term loans with a healthy proportion of longer-term funding. However, as funders in the South African market have a general preference for floating rate funding, the longer-term funding comes with a floating coupon, contributing to the repricing mismatch.

Additionally, liquidity policy limits the use of retail demand savings deposits that may fund those retail unsecured loans with longer terms. The balance represents a liquidity buffer and is invested in money market instruments to ensure there is no net carry cost. The basket of money market instruments used for this is not restricted to floating-rate cash-on-call investments, but includes instruments with maturities up to one year that offer better fixed-rate yields. These longer-term instruments are acquired in terms of a 'hold to maturity' strategy. This locks in a longer-term gross yield but contributes to the repricing mismatch. However, this deliberate mismatch is accepted and is addressed by monitoring the overall net yield on cash management activities.

Capitec offers competitive interest rates on its retail demand deposits (typical transaction accounts pay very low yields while the Capitec global one transaction account pays 4.4% nominal annual compounded monthly).

The effect of shareholders' equity
A natural mismatch position arises due to rate sensitive assets being more than rate sensitive liabilities. At Capitec this mismatch is due primarily to ordinary shareholders' equity, a consequence of the conservative leveraging employed by the bank.

Although, traditionally equity is considered as 'non-rate sensitive' what is important is the shareholders expectation of what the required return on equity is, which could be fixed or floating. Capitec targets a fixed return on equity. Given that the principal asset class is retail unsecured lending, also at fixed rates, and given the allocation of much of the equity to funding of these assets (in line with the philosophy of matching the funding of longer-term assets with long-term funds), that part of the mismatch between assets and liabilities, due to equity funding, is considered matched.

Management of interest rate risk
The ALM policy precludes taking speculative or trading positions on the banking book. In general ALCO aims to match the fixed or floating-rate nature of funding with the fixed and floating-rate elements of the loan book and surplus cash positions. To manage mismatches, long-term floating-rate liabilities may be swapped to fixed rates. The cost of swapping floating exposure is assessed against the probability and quantum of costs that could arise from moderate to large interest rate shocks.

Appetite for interest rate risk is managed in terms of set limits applied using both balance sheet and earnings measures. The impact of rate changes on the net present value of the retail loan book and related funding is assessed as well as the potential impact of an open position on current and future profitability.

Earnings at risk (using a 12-month rolling budget), behavioural data, yield curve developments, money market interest rates, an economic evaluation with analysis of the likely impact on interest rates as well as a re-pricing analysis are used to address yield curve, basis, optionality and re-pricing risk.

ALCO approves interest rate pricing on funding and loan products, transaction fees and authorises any swap transactions. Refer note 27 to the annual financial statements.

Regulatory sensitivity analysis of equity – 200 basis point shift

	2015		2014	
	R'000	**%**	**R'000**	**%**
Increase	**(428 945)**	(3.5)	(317 959)	(3.3)
Decrease	**434 686**	3.6	321 189	3.3

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

Equity risk

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

Currency risk

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

Currency risk has minimal impact on Capitec Bank's operations as they are within South Africa. Imported capital equipment and technological support services result in limited exposure to currency fluctuations. However, these transactions are fully hedged by means of forward exchange contracts as and when they are undertaken. Any borrowing done in foreign currency is fully hedged using currency swaps. Refer note 27 of the annual financial statements.

Hedging of market risk

ALCO only allows derivatives to be used for hedging risk in the banking book.

- Interest rate swaps are used to convert floating-rate to fixed-rate funding, to achieve the objective of matching the rate nature of assets and funding.
- Currency swaps are used to convert any foreign currency exposure arising on foreign denominated funding to rand.
- Forward foreign exchange contracts are used to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities.

Any hedges used cover the complete exposure on the underlying transaction.

Refer also notes 38 and 39 to the annual financial statements.

Business risk

This is the risk that:

- non-performance against planned strategic objectives;
- the consequences of inappropriate strategy or;
- a decline in sales volumes or prices; will have a negative impact on profitability.

Governance

Business risk management is overseen from a risk perspective by the RISCO, a subcommittee of the RCMC and managed operationally by the EXCO and board. Managing involves the daily operational assessment of performance against the operational plan and the development of the strategic plan. These two elements must align.

Daily operational management

Management activities are arranged around the key activities and value generators; transacting, saving and credit. Strategy and reporting on these activities is focused around addressing the impact of applying key business drivers thereon, the drivers being:

- Service, delivering on service to clients (including service between internal departments).
- People, enhance the performance management through strategic alignment, encouraging 'ownership' and efficiency.

Business volumes are monitored by executive management – daily, weekly and monthly using both financial and non-financial measures.

- Efficiency, enhancing the stability and ability of systems to support achievement of defined strategic goals, by being disciplined in project management.
- Business optimisation, leveraging the existing business model, containing costs, focusing on the continuous improvement of credit decisions and encourage clients to optimise their use of the Capitec product range of transacting, savings and credit services.

Business volumes are monitored by executive management daily, weekly and monthly using both financial and non-financial measures. This is done using a strategically aligned management operating system ('MOS') that cascades the monitoring process from EXCO down to branch level in a systematic manner.

Metrics include, inter alia, new transaction business (new accounts and dormancy levels) and for credit the take-up rate of the credit offer. Of equal importance are service-related metrics including branch time to service and centralised call centre reporting. The MOS ensures that branches maximise sales opportunities, within the allowed risk profile. Branch managers have a real-time view of service flows allowing them to manage in-branch resources so that clients get the optimal service experience.

Strategic management

The board and EXCO manage strategy and the implementation thereof. The impact of events on the future direction of the business and forecast results is quantified using stress testing as soon as information is available to make a quantitative assessment. Additional volume and price drivers are subject to sensitivity testing at least annually as part of the ICAAP process, including break-even analyses.

Funding and liquidity risk

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

Governance

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

Risk appetite

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

Risk appetite measures

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

- Wholesale deposit funding is limited, in the main, to contractual maturities of at least two months and no paper has been issued with an initial maturity of less than 12 months in the past few years.
- The utilisation of short-term retail deposit funding is limited to funding net short-term cash flows.
- In terms of the Banks Act, adequate liquid assets must be maintained to meet the liquid asset requirement, fund the reserve account and maintain collateral for clearing balances on the SAMOS system account.
- No reliance is placed on interbank overnight facilities as a funding mechanism. Treasury management may, however, use available unsecured facilities from time to time. Usage of interbank facilities is monitored and reported to ALCO.

Monitoring

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

Daily cash management

Daily funding requirements are forecasted taking into consideration day-to-day cash flows and those that relate to large single obligations. This forecast is supported by behaviour modelling to determine business as usual cash flow requirements, including key demand points during the month, and adjusted for seasonal variations. ATM requirements are centrally managed and teller cash is maintained at a minimum.

Portfolios of highly liquid assets are maintained and can be liquidated to meet unexpected variances in forecasted requirements.

Funding management

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

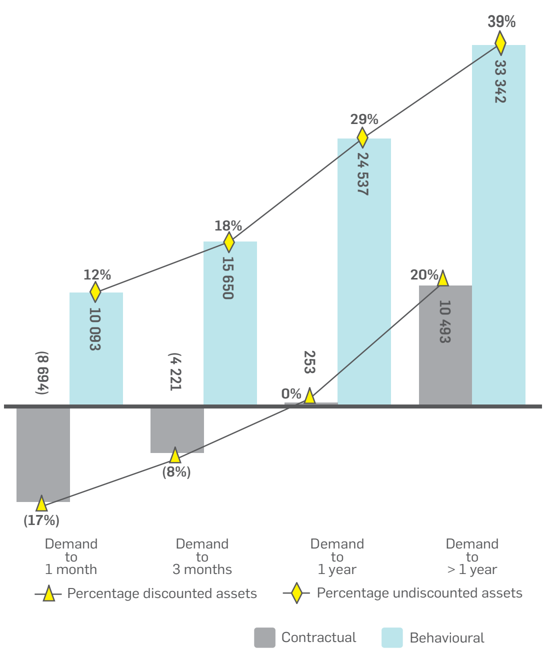
Funding rates

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

Managing funding concentrations

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

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



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

Liquidity measurements

Contractual and behavioural liquidity mismatches

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

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. Ninety two per cent (2014: 92%) of retail demand deposits is reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business as usual conditions.

The LCR

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

A ratio of 100% or more represents compliance in terms of Basel 3 requirements. The requirement to comply is being phased in and a ratio of 60% was required from January 2015.

LCR – Bank	**2015**	**2014**[2]
LCR (%)	**1 210**	1 635
High-quality liquid assets (R'm)	**6 006**	6 751
Net outflow[1] (R'm)	**497**	413

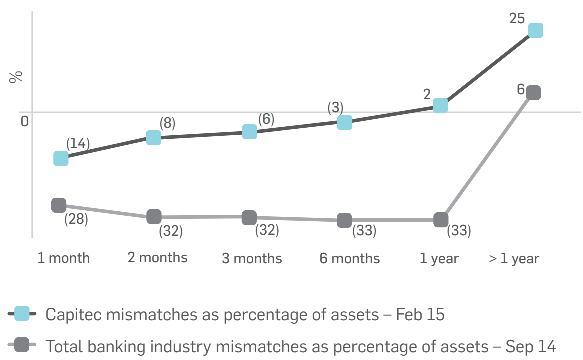
(1) *As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.*

(2) *The comparative was restated to reflect the final calibration decisions made by the Basel committee during 2014 effective as of January 2015.*

(3) *Capitec complies with the LCR without the assistance of the committed liquidity facility ('CLF')*

Further detailed disclosure of the components of the LCR ratio is available on the Capitec Bank website under www.capitecbank.co.za/investor-relations under the header Banks Act Public Disclosure.

CAPITEC MISMATCH AS A PERCENTAGE OF ASSETS RELATIVE TO THE INDUSTRY



The NSFR

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

NSFR – Bank	2015	2014
NSFR (%)	**138**	131
Required stable funding (R'm)	**43 444**	38 786
Available stable funding (R'm)	**31 535**	29 533

Early compliance with these two Basel ratios underscores the organisation's conservative approach to liquidity management. The NSFR ratio is calculated as per the SARB rules in force. Basel issued final adjustments to the calibration of the ratio in October 2014. If these changes were applied at 28 February 2015, the NSFR ratio would have been 166% (2014: 155%).

Capital management

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

Capital to manage risk and growth

Capitec Bank retains capital not only for risk on the existing portfolio, but also to support risk arising from planned growth.

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

At 5 times equity Capitec is conservatively leveraged relative to the South African banking industry, which has an average leverage ratio of 13 times equity.

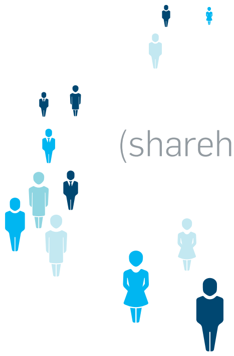
Management of demand-side risk involves monitoring the growth in risk-weighted assets which drives the growth in the regulatory and own internal capital requirements.

Capitec Bank's principal policies when managing capital:

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

Capital for sustainability

The two principles above counterbalance each other by aiming to maximise returns for shareholders, but not at the expense of other stakeholders. This approach prevents the adoption of high-risk/high-reward strategies and safeguards long-term sustainability while maintaining satisfactory returns for all stakeholders. Implicit in this approach is compliance with the prudential requirements of the Banks Act and the maintenance of a strong capital base to support the development and growth of the business.



A strong Common Equity Tier 1 (shareholders' funds) capital adequacy ratio of

29%

Governance

ALCO assesses capital adequacy on a monthly basis and reports to the RCMC quarterly. Emphasis is placed on the accuracy of the capital forecast which is rebased on most recent month actual data and key forward-looking assumptions are adjusted monthly as is necessary. Capital adequacy and the use of regulatory capital are reported to the SARB monthly, in line with the requirements of the Banks Act. Quantitative information on capital adequacy is presented below and note 27 to the annual financial statements. Stakeholders are referred to the website (www.capitecbank.co.za/investor-relations) where full details regarding the regulatory disclosures, as required by the Banks Act, are provided.

ICAAP

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

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

Determining capital sufficiency

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

Approach to raising capital

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

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

Planning a strong return on equity

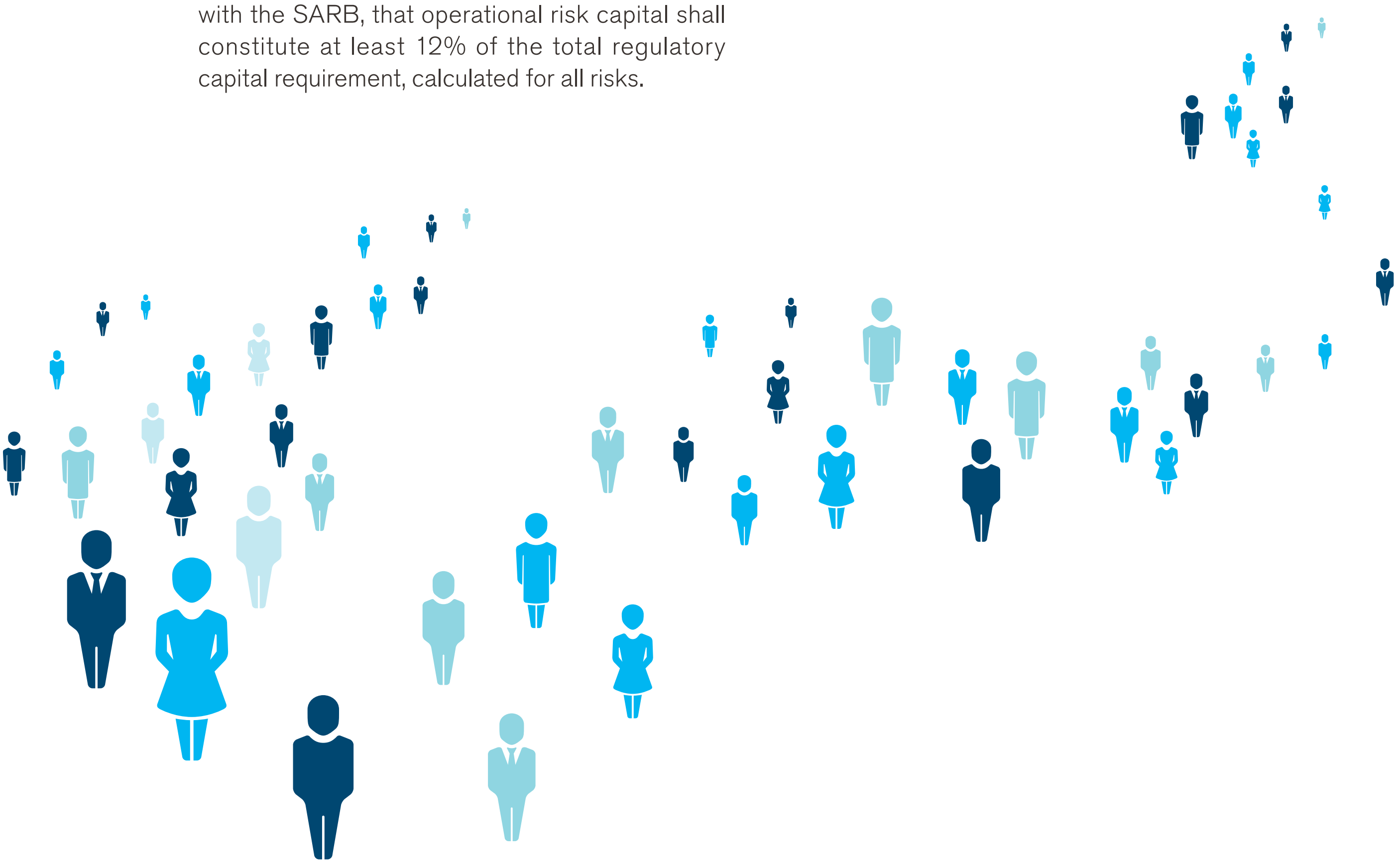
Another essential element of capital management is aiming to deliver a sustainable and satisfactory return on equity for shareholders. The board's targeted return on equity ('RoE') is the starting point and the business is calibrated to deliver this over a sustained period. The targeted RoE is a key input that is factored into investment decisions and credit origination models. The impact of risk on the volatility in RoE is estimated and factored in.

Basel calculation methods for credit and operational risk capital

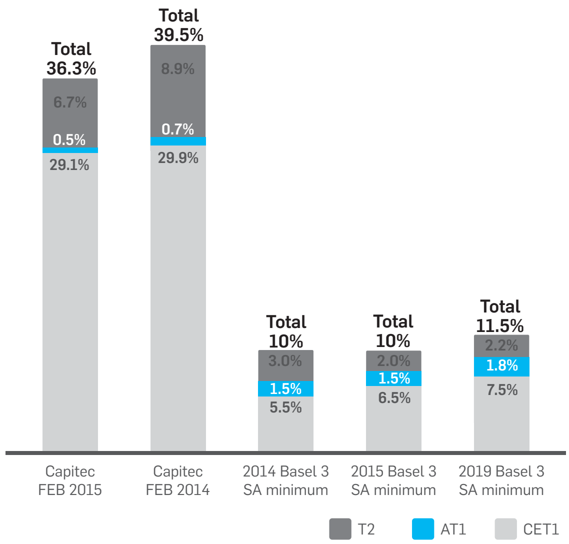
The ICAAP involves assessing capital from a business and regulatory perspective. The regulatory capital requirement is calculated using a percentage applied to the risk-weighted assets of the business.

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

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



CAPITAL ADEQUACY BY TIER



- *CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.*
- *AT1 – Additional Tier 1 capital – Capitec's perpetual preference shares qualify as entry-level AT1 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. 20% of total preference shares outstanding at 1 March 2014 that were already subject to phase-out rules were redeemed during the 2015 financial year.*
- *T2 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank as the interest cost is offset against revenue. This debt is regarded as third-party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the reporting period.*
- *Globally, the Basel 3 minimum capital adequacy percentage is 8%.*
- *The 2015 Basel 3 SA minimum includes the South African country buffer of 2% (2014: 2%; 2019: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel 3 SA minimum includes the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers – Bank-specific buffers including the ICR for specific bank risk and D-SIB buffers. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. Any D-SIB requirement will be phased in over four years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis will not be more than 3.5%.*
  - *A countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth. Implementation commences in January 2016.*
  - *Haircuts to be applied against a deemed surplus attributable to minority and third-party capital issued by subsidiaries, which began phasing in from 2013 at 20% per year.*

The impact of Basel 3 on capital adequacy measurement

Loss absorbency

The Basel 3 loss absorbency rules require AT1 and T2 capital instruments to have a clause in the agreement that enables the regulator to convert them to ordinary shares or write them down in the event of the resolution of the financial institution (a bail-out by public institutions). The clause provides the regulator with alternate legal options in the event that a bank crisis must be resolved.

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

Leverage ratio

The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. Capitec Bank had a calculated regulatory leverage ratio of 5 times CET1 capital as at the end of the reporting period (2014: 5 times CET1). The maximum allowed leverage in South Africa is 25 times CET1 capital. Further detailed information on the calculation of the leverage ratio is available on the bank's website https://www.capitecbank.co.za/investor-relations. At 5 times equity Capitec is conservatively leveraged relative to the average of the South African banking industry, which has an average leverage ratio of 13 times equity (SARB aggregated data December 2013).

Restrictions on the transfer of regulatory capital

Given Capitec Bank's simple structure and as all the operations are in South Africa, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act.

Operational risk

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

Governance

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

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

Operational risk measurement, processes and reporting

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

Enhancing the control environment

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

Assessing risk

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

Operational risk mitigation programmes

Capitec Bank, like other financial institutions in South Africa, faces diverse fraud risks ranging from very simple to highly complex fraud schemes. We follow a traditional risk management approach towards fraud, focusing our resources on the areas of current highest fraud risk to ensure that it is managed appropriately. Each fraud type therefore has a formalised approach aimed primarily to prevent the fraud and, if not prevented, to quickly identify the fraud, investigate and report on the incident. We are focused on using technology optimally to prevent our exposure to fraud and to ensure that we are at the forefront of fraud prevention.

Fraud policy and mitigation strategy

A fraud policy outlines for employees what constitutes fraud and details the procedures to be followed where fraud is suspected or discovered.

Our mitigation strategy for financial crime includes, among others, the following measures:

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

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

Enhanced internet banking security implemented by Capitec Bank, such as Man-in-the-Middle and Man-in-the-Browser, protects clients against online fraud schemes and advanced attacks.

Insurance

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

Business continuity

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

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

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

Policies and procedures

The organisation has a dedicated policies and procedures department, Polproc. Polproc is responsible for:

- The administration of formal documents (all policies, standard operating procedures, forms, templates and supporting tools) in terms of a framework that sets minimum standards. These standards govern the creation and maintenance of the mentioned document types in terms of a policy life cycle and require conformity to the Capitec Bank pillars.
- The promotion and awareness of policies to enable compliance, involving training and other interventions for users.
- Contract management and driving the review and maintenance thereof, including version control.

Policy developers and line managers are responsible for assessing compliance with policies, and internal audit monitors compliance with key policies in terms of their annual risk-based audit plans.

All updated and new policies are published internally and are available on the intranet.

Compliance risk

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

Regulatory and supervisory compliance is a top priority and high levels of compliance with the spirit and letter of the law are maintained. In this regard, the bank is involved at industry level with the payment industry, credit regulations and Basel 3 developments. To ensure involvement in the national payments system, Capitec Bank is a member of PASA and is represented on multiple payments forums within the association.

The compliance function

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

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

The area of focus

- Significant pieces of legislation as identified by the compliance function are the main focus of the independent compliance function and management system activities of the bank. This approach achieves a healthy balance of appropriate and sufficient compliance and efficient interaction with stakeholders and business relative to our business activities. Material compliance challenges facing the bank include:
- dealing with the FICA (Financial Intelligence Centre Act) requirements regarding client identification and verification, record retention, client due diligence and client maintenance;
- protection of personal information legislation;
- exchange control regulation; and
- continued and high levels of compliance with credit legislation to create and sustain a responsible and compliant credit environment.

Reporting

We invested in specialised systems to protect the bank and stakeholders in an effort to counter the ever-evolving world of crime, corruption, money laundering and even financing of terrorism.

The head of compliance reports to the audit committee at every committee meeting and submits compliance reports to both the audit committee and RCMC as required by the Banks Act. All material events of non-compliance are reported to the audit and directors' affairs committees as well as the board of directors. For the reporting period, the compliance officer submitted reports which indicated acceptable and good levels of compliance by the bank with statutory and regulatory requirements.

Interaction with the SARB

The bank supervision department of the SARB is provided with copies of reports after every meeting of the above-mentioned committees. The events of non-compliance listed were mostly non-material and were either rectified or are in the process of being resolved through systems and process changes.

The SARB imposed an administrative sanction of R5 million for non-compliance with section 28 (Cash Threshold Reporting) of the Financial Intelligence Centre Act (FICA). The compliance reporting breach was detected by the compliance department and representations to the SARB in terms of section 45 of the FICA were submitted and the system reporting deficiencies were identified and rectified.

The compliance officer has annual prudential meetings with the bank supervision department of the SARB and responds to general and ad hoc requests for discussion when required.

Information technology risk

The persistent pursuit to provide clients with simplified banking drives Capitec Bank IT to focus on innovative methods of technology application and solutions. One such an innovative solution is our Remote Banking Application that was launched with great success.

In addition, during this reporting period we've invested in improving our ATM software and hardware, enhancing the Bio-metric systems in all our branches to further assist in Capitec Bank's drive to become paper-less and decrease our carbon footprint.

Protecting our clients' information

While focusing on our innovation and solutions we also continue to focus on protecting our clients' information and keep their best interests in mind through sound security practices and safeguards. We have a matured information security approach that consistently monitor and remediate areas of concern where our clients and company information could be at risk.

IT governance framework

IT governance is implemented according to the Capitec Bank IT governance policy. The governance policy is built on a strong framework which incorporates principles and controls defined in international standards such as Cobit, Information Security Framework (ISF), ISO 25999 and ISO 27001/2. The framework provides guidelines and structures to ensure that an IT strategy is created, approved, reviewed and implemented in a manner that is always aligned with the business strategy, focusing strong on our clients.

The IT governance framework also defines the IT organisational structure as well as the policies and procedures that are required to facilitate good governance and compliance practices within IT.

Weekly executive management meetings, as well as formal IT prioritisation meetings, provide platforms where strategic IT matters and initiatives are discussed and priorities are aligned. Weekly meetings, focused on IT risks and potential issues, ensure that situations which could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed on a senior management level. Important issues are thus dealt with at the correct level of urgency and focus. Over the past year there has been a drive to ensure IT resources remain focused on the delivery of critical projects by better adherence to project management disciplines.

IT compliance

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 Capitec Bank compliance officer. Progress on all compliance matters is formally tracked and reported on.

Information security management system

The Capitec Bank information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information. The ISMS is based on ISO 27001 with embedded alignment towards the principles of ISF. Information security management is the responsibility of the information security officer.

Capitec Bank is also actively involved in industry initiatives, such as the South Africa Banking Risk Information Centre (SABRIC) to establish and embed well coordinated security response mechanisms in the event of major security threats to the banking industry or individual banks.

Occupational health and safety

The Capitec Bank health and safety policy supported by other documented policies and various procedures and systems (i.e. the Worktrainer on-line recording and reporting system at our branches) provide the basis for compliance to legislation and regulation. These include the Occupational Health and Safety Act and all its regulations, Tobacco Control Act and Compensation for Occupational Injuries and Diseases Act.

Ongoing compliance and risk assessments are carried out by Capitec Bank's Compliance department and line management is actively involved in implementing corrective action to rectify where necessary and to minimise risk to people, facilities and infrastructure.

Stress-testing and contingency planning

Stress-testing programme

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

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

Contingency planning

The bank conducts integrated scenario based recovery planning in order to prepare for contingencies. The SARB requires that all major South African banks conduct recovery planning so that they are well prepared to withstand capital, liquidity and operational risk shocks.

Liquidity recovery plan

A liquidity recovery plan specifies qualitative and quantitative measures to identify early warning indications of liquidity stress. These indicators are reviewed monthly by ALCO. The plan provides management with a list of possible actions to address potential liquidity threats. These actions cover necessary changes to the ALM strategy and communications with stakeholders. The LRP operates in conjunction with the ALM and recovery policies to ensure a coordinated approach to liquidity management.

Capital recovery plan

A capital recovery plan detects possible capital stress occurrences and provides guidance on appropriate actions to respond to early warning signs. As it is difficult to obtain additional capital in times of stress, Capitec Bank has a proactive and preventative approach to capital procurement. Management makes use of positive market conditions and positioning to obtain additional capital, when it is available, as the pricing is favourable. Communication with stakeholders is included in the actions covered.

Operational risk business continuity

The approach to business continuity is described fully in the section on operational risk.

Employee wellness

The employee assistance programme supports employees with personal health management, counselling services, appropriate financial and legal advisory services and referral to appropriate testing and medical treatment facilities.

This is done through an independent service, provided to employees without cost. Regular communication with employees through internal communication channels is aimed at education on subjects such as risks relating to serious diseases, prevention measures and how to deal with such illnesses.

Managing chronic and life-threatening diseases

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

Managing HIV/AIDS

HIV/AIDS is a sensitive matter and Capitec Bank understands that it has a role to play in the lives of employees infected and affected by the condition. An impact study conducted by ICAS Southern Africa Proprietary Limited during 2010 reiterated the importance of a holistic approach to HIV/AIDS.

Through the bank's medical aid scheme, HIV-positive employees have access to an HIV care programme. Access to anti-retroviral medicine, multivitamins and vaccines necessary for cost-effective treatment of the condition are available to employees through this programme. Employees can also benefit from the support of the employee assistance programme which includes HIV/AIDS education, counselling and support via telephone counselling, an online programme and face-to-face counselling. Regular employee awareness campaigns are conducted to inform employees of the assistance Capitec Bank can offer.

Remuneration risk

This is the risk that remuneration policies do not take into account the extent to which a transaction concluded by any employee exposes the company to risk of loss and fails to recognise the time period over which these losses can emerge. Misalignment between risk and reward could occur if an employee is fully rewarded for a transaction that continues to expose the company to the risk of losses in subsequent periods. Capitec Bank's remuneration policies and procedures balance employee interests with shareholders' interests and do not incentivise inappropriate risk-taking.

Governance

REMCO consists of two independent non-executive directors and a non-executive director. Chris Otto, an independent non-executive director chairs the committee. The non-executive director is the chairman of the board who, as a substantial shareholder, has a fundamental interest in the decisions made regarding remuneration packages and thus ensures that care is exercised in all remuneration decisions.

REMCO's mandate is to ensure that remuneration policies and practices are established and observed which:

- attract and retain individuals able to create enduring sustainable value for shareholders; and
- address remuneration risks inherent in the banking environment.

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

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

The main component of remuneration is the fixed remuneration package. All variable compensation components are performance based on the successful achievement of individual, team and company targets. Non-performance by not reaching set targets results in forfeiting of variable compensation. No guaranteed variable remuneration is included in employment contracts. This ensures a solid link between company performance and employee pay.

The principles for determining increases

Increases for all employees (including executives and directors) are determined by taking into account performance review results of the individual, the team and the company, competence, benchmarking, forecast profitability and economic factors, including (but not limited to) the consumer price index. The chief executive officer and chairman of the board may make recommendations to REMCO regarding increases. The proposed increases, including any recommendations, are subject to REMCO approval, in accordance with the board-approved mandate.

Employee remuneration

The remuneration department conducts continuous employee remuneration benchmarking exercises, using an accredited independent and up-to-date electronic benchmarking interface (PwC REMchannel surveys). The reports and recommendations generated are submitted to REMCO.

Benchmarking exercises include salary bands for the major categories of client-facing operations – employees are assessed within the context of the Capitec Bank strategy and budget. This is used for the annual salary budget submitted for approval to the board.

This ensures that Capitec Bank remains an employer of choice. Key employees, especially scarce skills, are rewarded by paying a premium above the median according to their capabilities, performance, skills and responsibilities.

Risk and compliance employees' remuneration established independently

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

Director emoluments

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

The remuneration of the executive directors and the fees paid to the non-executive directors for the 2015 financial year are detailed in note 29 to the annual financial statements. Fees for the 2016 financial year will be submitted for consideration by the shareholders at the annual general meeting scheduled for 29 May 2015. The proposed fees are as follows:

Directors' fees	2016 (R)	2015 (R)	Increase (%)
Chairman of the board	1 200 000	1 200 000	–
Chairman of the audit committee, RCMC and REMCO	216 000	200 000	8
Chairman of the social and ethics committee	52 000	48 000	8
Committee membership	52 000	48 000	8
Board membership	254 000	235 000	8

The permanent members of the executive management committee are the key decision-makers in the bank and as such they fall within the category of prescribed officers as defined in the South African Companies Act. The composition of the committee is detailed in chapter 3 of this report.

Executives, including executive directors, have standard employment contracts and are subject to standard performance requirements and discipline mechanisms within Capitec Bank.

The share-based plan is the only long-term incentive scheme for executives. All deferred benefits are forfeited at termination, unless the remuneration committee, having been satisfied of reasonable circumstances, approve vesting after termination. There are no other pay-outs on termination, other than the statutory payments.

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

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

Components of remuneration

The structure of the remuneration plans described in the following table has not changed materially during the reporting period, with the exception of the grant ratio of options to share appreciation rights and the maturity profile of 2015 awards. This was done with a view to ensuring retention of executives and other strategic employees. The changes are presented in more detail in the following table.

Basic salary (cash settled)

All employees **Fixed**

Strategy:	Fixed remuneration packages ensure that the total guaranteed cost of employment is clearly defined and controlled. This structure prevents open-ended risks and/or liabilities.
Policy:	The remuneration package is continuously benchmarked against competitors and the market.
Terms and benefits:	Employees have access to the following benefits: • Leave • Partially paid maternity leave • Retirement funding • Healthcare • Disability cover • Death cover • Funeral cover • Education cover for dependants • Financial wellness programme • Employee assistance programme • Education assistance programme • Flexible working hours, where operationally productive and conducive to performance

Annual performance bonus (cash settled)

All employees (excluding senior management bonus plan participants, but including those on the executive share-based plans) **Variable**

Strategy:	The annual performance bonus plan was established to fulfil a number of key business objectives such as: • Aligning employee interests with shareholder interests • Improving business performance • Supporting stakeholder ideals by allowing employees to share in the success of the business.
Policy:	This bonus plan is linked to Capitec's year-on-year growth in HEPS, including a challenging minimum target below which no bonus is awarded to serve as a non-performance measure. The pre-defined target, communicated at the beginning of the 2016 financial year, is 15% growth in headline earnings per share. In 2015, as operational staff already participate in variable quarterly sales incentive plans a weight of 50% of the calculated amount is applied in calculating the benefit.
Terms and benefits:	The annual performance bonus is determined by applying pre-set reward percentages, equal for all participants, that increase along ranges of increased growth in HEPS achieved, to each participant's fixed monthly remuneration package. This bonus is awarded ex-post in April, based on the final audited year-end results. No bonus is paid if the minimum predefined target is not met.

Senior management performance bonus (cash settled)

Senior management (excluding strategic management), 80 participants during the reporting year		**Variable**
Strategy:	Capitec Bank's performance is driven by a combination of innovative strategic thinking and dedicated, consistent delivery on our objectives. The senior management performance bonus plan supports the sustained performance-driven culture of the organisation, in a way similar to the annual performance plan.	
Policy:	This bonus plan is also linked to the year-on-year growth in HEPS. The fundamental differences to the annual performance bonus are that: • greater incentives are awarded for growth in HEPS • payment is deferred over a longer period • a clawback measure is included. This continuously motivates innovative long-term strategic thinking and risk management.	
Terms and benefits:	The senior management performance bonus is determined by applying pre-set reward percentages (that increase along ranges of increased growth in HEPS achieved), to each participant's fixed monthly remuneration package. The payment of the bonus, however, is deferred over three years. Deferred balances are forfeited in the event that the employee leaves the company. In the event of a decrease in profit on a year-on-year basis, the cumulative deferred bonus balance will decrease with the same percentage. No bonus is awarded if the minimum pre-defined growth in HEPS targets are not met. The minimum target for the 2016 financial year is growth in headline earnings per share of 13%.	

Share option scheme (equity settled) and share appreciation rights scheme (cash settled)

Members of the executive management team and a limited number of senior managers whose delivery on strategic targets is regarded as critical to achieving annual objectives (strategic management). The executive share-based plan had 60 participants during the year		**Variable**
Strategy:	The intention of the share-based plans is to retain key employees and incentivise performance aligned with the interests of all stakeholders of the organisation. This strategy ensures that all parties strive towards a common goal, increasing the value of the business. The executive share-based plans are intentionally simplified to avoid a short-term focus as a result of overly complex objectives. REMCO reviews and approves the list of eligible participants and quantum of options and SARs to be issued to participants, aligned to individual responsibility and performance.	
Policy: share options	Eligible employees are granted options to subscribe for ordinary shares in Capitec at an option price equal to the market value of the share, being the 30-day weighted average value per Capitec share on the JSE immediately preceding the day on which the options are granted. The employees are entitled but not obliged to subscribe for the Capitec shares at the predetermined exercise price.	
Policy: share appreciation rights	SARs are granted to eligible employees and are cash-based but linked to equity performance. Dilution of issued share capital is thus limited as no shares are transferred to the participants. The strike price of the SARs granted in financial years 2014 and prior was determined in accordance with that of share options. In 2015 the strike price for SARs was fully discounted.	

Terms and benefits:	For financial years ended 2014 and prior, options and SARs are granted annually on an equal basis (50% options, 50% SARs). In 2015 the ratio of options to SARs was 25% to 75%. The SARs were granted on a fully discounted basis, while the options were granted on the normal 30-day weighted average method. For share options and SARs granted in financial years ended 2014 and prior, the maturity profile starts after three years in tranches of 25% per year. For those options and SARs granted in the 2015 financial year the maturity profile starts after two years at 25% per year. Participants have a six-month period after the date on which the options and SARs mature during which they can be exercised. Unless REMCO resolves otherwise, options and SARs are forfeited if the participant leaves the employ of the company before they have matured and been exercised. This ensures long-term relationships with executive management. As the performance of the share options and SARs is dependent on the market price of Capitec shares, there is an inherent clawback mechanism in these reward instruments. Should the company not perform as expected, it is highly likely that market discipline would result in a decline in the share price and a lower remuneration, or possibly zero remuneration if the instruments are out of the money, for holders. Refer notes 35 to 37 to the annual financial statements for details regarding the executive share-based plans.

Quarterly sales incentive plans (cash settled)

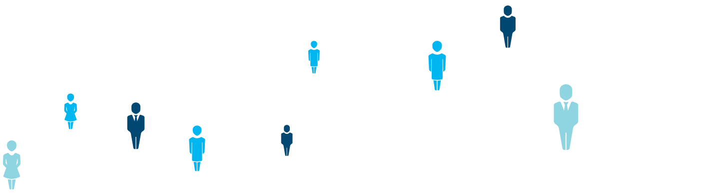
Branch employees and sales teams (excluding senior sales managers) **Variable**

Strategy:	The quarterly sales incentive plan aims to incentivise branch and sales employees to assist in the growth of the business.
Policy:	Rewards are based on the achievement of predetermined targets. Performance targets include sales targets (including loan sales, transactional banking and mobile banking) appropriately balanced with arrears and service efficiency targets.
Terms and benefits:	Qualifying conditions include: • On-standard performance for the period under review • Timeous completion of scheduled learning sessions • Regular work attendance during the period under review.

Remuneration analysis

Capitec Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	11	84	10 166	10 261	
Remuneration awards						
Fixed	R'000	37 852	99 114	1 512 061	1 649 027	
Cash remuneration	R'000	37 852	99 114	1 512 061	1 649 027	
Variable	R'000	263 346	167 195	162 953	593 494	
Cash staff performance bonus	R'000	11 997	1 175	162 953	176 125	
Cash bonus bank	R'000	–	93 893	–	93 893	
Share options[1]	R'000	127 173	36 166	–	163 339	Note 24
Share appreciation rights [1]	R'000	124 176	35 961	–	160 137	Note 24
Variable remuneration						
Employees receiving awards	Number	11	84	10 166	10 261	
Non-deferred	R'000	11 997	32 734	162 953	207 684	
Deferred	R'000	251 349	134 461	–	385 810	
Outstanding deferred remuneration	R'000	161 398	101 608	–	263 006	
Cash bonus bank	R'000	–	64 268	–	64 268	Note 16
Share options[1]	R'000	50 075	18 828	–	68 903	Note 36
Share appreciation rights[1]	R'000	111 323	18 512	–	129 835	Note 37
Deferred remuneration paid out	R'000	282 213	107 019	–	389 232	
Cash bonus bank	R'000	–	9 519	–	9 519	
Share options[1]	R'000	173 229	47 854	–	221 083	
Share appreciation rights[1]	R'000	108 984	49 646	–	158 630	
Employees' exposure to adjustments	R'000	161 398	101 606	–	263 004	
Implicit adjustments	R'000	161 398	37 338	–	198 736	
Post explicit adjustments	R'000	-	64 268	–	64 268	
Total remuneration exposed to adjustments	R'000	161 398	101 606	–	263 004	
Implicit adjustments	R'000	161 398	37 338	–	198 736	
Post explicit adjustments	R'000	–	64 268	–	64 268	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

[1] *The remuneration relating to share options and share appreciation rights for strategic management, includes the costs relating to R Stassen, a former executive director who retired on 31 December 2013 and remained involved as a non-executive director from 1 January 2014.*



Alignment of risk and reward

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

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

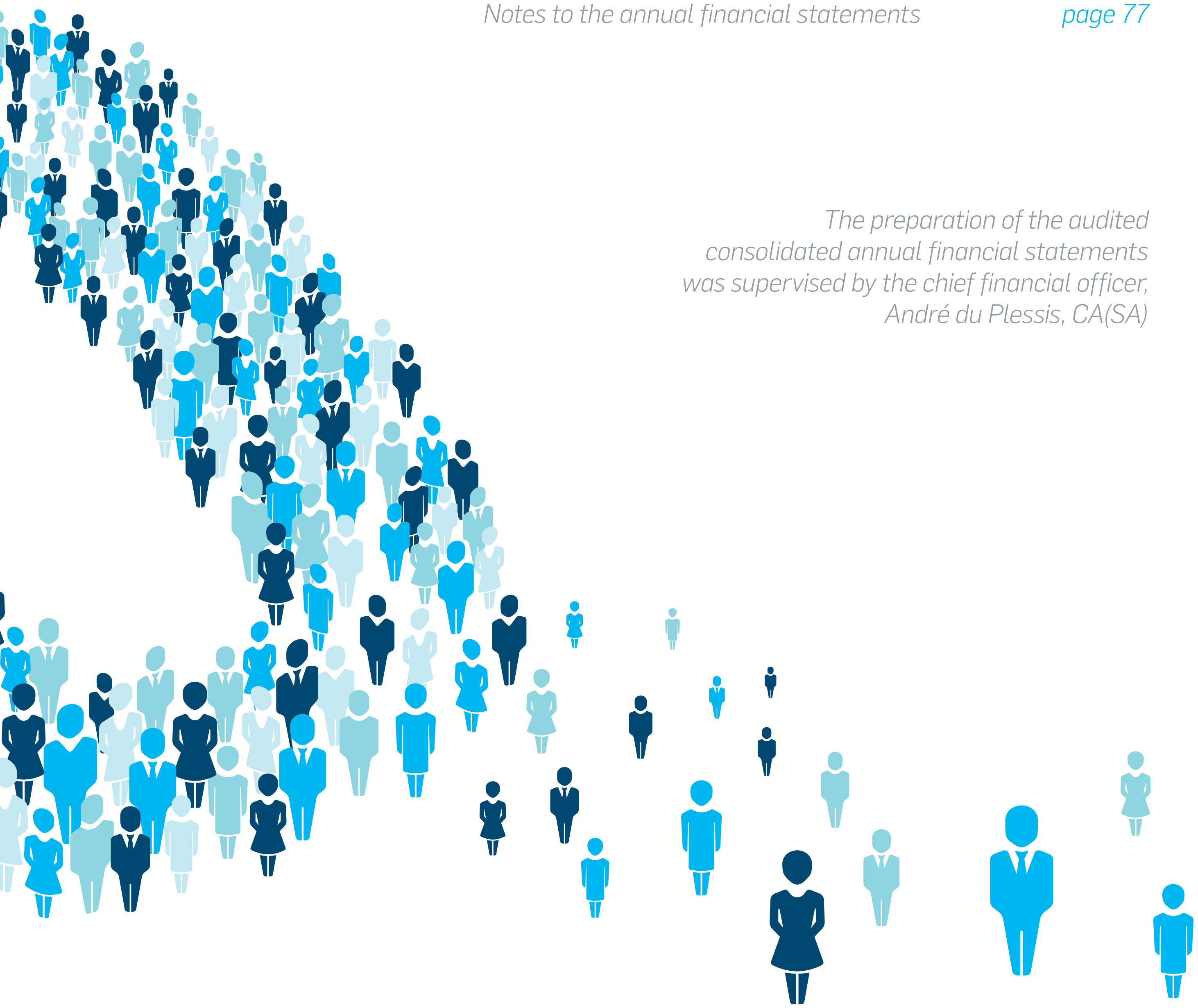
The chairman of REMCO is also a member of the RCMC and is therefore fully apprised of risk matters. REMCO considers variable incentive plans based on a measurable end result such as growth in HEPS to be appropriate because the organisation runs a monoline business with strong centralised control and does not have a variety of business units with different risk profiles. HEPS reasonably captures and reflects the broad range of risks the business is exposed to and which must be managed. Furthermore, the current method is transparent and easy to understand and is subject to annual audit. In this way the Bank avoids complex measurements that lead to a short-term focus.

Deferring variable compensation over a number of years (as with the executive share-based plan and the senior management bonus plan) reasonably captures the results of risk taken over a number of financial years and ensures a long-term commitment to sustainability from management. The long-term emphasis is evident in the fact that management retains the majority of the shares obtained through the share-based plan.

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

04 What are the financial results for the year?

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



Statement of responsibility by the board of directors

Capitec Bank Limited ('the bank' or 'Capitec Bank' or 'the company')

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Capitec Bank Limited. The annual financial statements, comprising the balance sheet at 28 February 2015, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors' report.

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

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

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

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

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

The company's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 71.

The annual financial statements set out on pages 72 to 133 were approved by the board of directors and signed on its behalf on 23 March 2015 by:

Michiel le Roux
Chairman

Gerrie Fourie
Chief executive officer

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Limited ('the company'), that for the year ended 28 February 2015, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

Christian van Schalkwyk
Stellenbosch
25 March 2015

Audit committee report

Capitec Bank Limited

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

The committee comprises three independent non-executive directors and one non-executive director. The committee met three times during the year with 92% attendance by members at the meetings.

The committee's responsibilities include statutory duties in terms of the Act, as well as responsibilities assigned to it by the bank's board of directors. The committee's terms of reference are determined by a board-approved charter and are detailed in the corporate governance review .

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2015.

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2015 financial year.
- Approved the terms of the master agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm.
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.
- Reviewed the accounting policies and the bank financial statements for the year ended 28 February 2015 and, based on the information provided to the committee, considers that the bank complies, in all material respects, with the requirements of the Act, the JSE Listings requirements, the King III Code and IFRS.
- Undertaken the prescribed functions in terms of section 94(7) of the Act on behalf of the subsidiary companies of the bank.

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

- Considered the sustainability information as disclosed in the annual report, which is the result of a combined assurance model, and satisfied itself that the information is reliable and consistent with the financial results.

  The committee, at its meeting held on 23 March 2015, recommended the annual report for approval by the board of directors.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties.
- The committee approved the internal audit charter and the annual audit plan.
- The committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself that the bank financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).

Chris Otto
Acting Chairman
23 March 2015

Directors' report

Year ended 28 February 2015

The directors present their annual report to shareholders for the year ended 28 February 2015.

Nature of the business

Capitec Bank Limited ('Capitec Bank') is a leading South African retail bank which focuses on essential banking services and provides innovative savings, transacting and unsecured lending products to individuals.

Review of operations

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

Share capital

A total of 100 000 ordinary shares were issued during the year ended 28 February 2015 bringing the number of shares in issue to 1 300 000 (February 2014: 1 200 000).

No ordinary shares were repurchased during the year and 573 803 preference shares were repurchased.

Dividends to shareholders

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

	2015	2014
Ordinary dividend (R'000)		
Interim	**283 633**	234 055
Final	**682 199**	530 371
Preference dividend (R'000)		
Interim	**8 736**	10 244
Final	**8 773**	10 176

The final ordinary dividend for 2015 was approved by the directors on 23 March 2015. In terms of the requirements of IFRS no accrual was made for this dividend.

Directors and company secretary

Information relating to the directors and company secretary are included in section 2 of the annual report.

The board of directors was unchanged for the year ended 28 February 2015.

Directors' remuneration is disclosed in the notes to the annual financial statements.

Post balance sheet events

Other than the item mentioned in note 41, the directors are not aware of any other event which is material to the financial position of the company or the bank that has occurred between the balance sheet date and the date of approval of the financial statements.

Independent auditor's report

To the shareholders of Capitec Bank Limited

We have audited the financial statements of Capitec Bank Limited set out on pages 72 to 133, which comprise the balance sheet as at 28 February 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capitec Bank Limited as at 28 February 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2015, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: DG Malan
Registered Auditor
Cape Town
23 March 2015

Balance sheet

As at 28 February 2015

R'000	Notes	2015	2014
Assets			
Cash, cash equivalents and money market funds	4	**11 312 408**	9 665 553
Investments designated at fair value	5	**2 663 877**	4 757 036
Term deposit investments	6	**5 778 474**	–
Loans and advances	7	**32 482 032**	30 050 753
Other receivables	8	**204 196**	219 436
Derivative assets	9	**35 847**	202 816
Current income tax assets		**37 635**	22 519
Group loans receivable	10	**29 993**	29 983
Equipment	11	**817 464**	823 957
Intangibles	12	**238 875**	201 319
Deferred income tax assets	13	**311 715**	215 129
Total assets		**53 912 516**	46 188 501
Liabilities			
Deposits and bonds	14	**41 181 305**	35 448 678
Other liabilities	15	**1 174 006**	873 780
Provisions	16	**64 268**	11 451
Group loans payable	17	**13 144**	11 609
Total liabilities		**42 432 723**	36 345 518
Equity			
Capital and reserves			
Ordinary share capital and premium	18	**6 105 981**	5 969 482
Cash flow hedge reserve	19	**7 035**	80 865
Retained earnings		**5 159 602**	3 533 667
Share capital and reserves attributable to ordinary shareholders		**11 272 618**	9 584 014
Non-redeemable, non-cumulative, non-participating preference share capital and premium	18	**207 175**	258 969
Total equity		**11 479 793**	9 842 983
Total equity and liabilities		**53 912 516**	46 188 501

Income statement

Year ended 28 February 2015

R'000	Notes	2015	2014
Interest income	20	**10 782 159**	9 432 698
Interest expense	20	**(2 425 702)**	(2 132 714)
Net interest income		**8 356 457**	7 299 984
Loan fee income		**1 245 881**	1 306 619
Loan fee expense		**(626 708)**	(465 916)
Transaction fee income		**3 672 711**	2 786 393
Transaction fee expense		**(1 064 835)**	(859 523)
Net fee income		**3 227 049**	2 767 573
Dividend income	21	**–**	8
Net impairment charge on loans and advances	22	**(4 014 085)**	(3 976 170)
Net movement in financial instruments held at fair value through profit or loss	23	**21 271**	(19 083)
Other income		**305**	245
Income from operations		**7 590 997**	6 072 557
Operating expenses		**(4 179 859)**	(3 283 001)
Operating profit before tax	24	**3 411 138**	2 789 556
Income tax expense	25	**(953 688)**	(780 785)
Profit for the year		**2 457 450**	2 008 771

Statement of comprehensive income

Year ended 28 February 2015

R'000	Notes	2015	2014
Profit for the year		**2 457 450**	2 008 771
Cash flow hedge recognised during the year	19	**(88 211)**	187 644
Cash flow hedge reclassified to profit and loss for the year	19	**(14 329)**	(53 219)
Cash flow hedge before tax		**(102 540)**	134 425
Income tax relating to cash flow hedge	19	**28 710**	(37 635)
Other comprehensive income that will be reclassified to profit or loss for the year net of tax		**(73 830)**	96 790
Total comprehensive income for the year		**2 383 620**	2 105 561

Statement of changes in equity

Year ended 28 February 2015

R'000	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings/ (accumulated loss)	Total
Balance at 29 February 2013	5 801 143	258 969	(15 925)	2 243 936	8 288 123
Total comprehensive income for the year	–	–	96 790	2 008 771	2 105 561
Ordinary dividend	–	–	–	(698 620)	(698 620)
Preference dividend	–	–	–	(20 420)	(20 420)
Shares issued	168 339	–	–	–	168 339
Balance at 28 February 2014	**5 969 482**	**258 969**	**80 865**	**3 533 667**	**9 842 983**
Total comprehensive income for the year	**–**	**–**	**(73 830)**	**2 457 450**	**2 383 620**
Ordinary dividend	**–**	**–**	**–**	**(814 005)**	**(814 005)**
Preference dividend	**–**	**–**	**–**	**(17 510)**	**(17 510)**
Shares issued / (Shares repurchased)	**136 499**	**(51 794)**	**–**	**–**	**84 705**
Balance at 28 February 2015	**6 105 981**	**207 175**	**7 035**	**5 159 602**	**11 479 793**
Notes	18	18	19		

Statement of cash flows

Year ended 28 February 2015

R'000	Notes	2015	2014
Cash flow from operating activities			
Cash flow from operations	30	**7 492 299**	7 193 777
Income taxes paid	31	**(1 036 680)**	(829 942)
		6 455 619	6 363 835
Cash flow from investing activities			
Purchase of equipment	11	**(288 205)**	(407 457)
Proceeds from disposal of equipment		**15 649**	844
Purchase of intangible assets	12	**(125 476)**	(141 103)
Loans to group companies		**(10)**	146
Investment in term deposit investments	6	**(7 269 515)**	–
Redemption of term deposit investments	6	**1 491 041**	–
Acquisition of investments at fair value through profit or loss and money market unit trusts		**(2 668 536)**	(5 427 767)
Disposal of investments at fair value through profit or loss and money market unit trusts		**4 777 003**	3 374 769
		(4 068 049)	(2 600 568)
Cash flow from financing activities			
Loans from group companies		**1 535**	10 025
Preference shares repurchased		**(51 794)**	–
Ordinary shares issued		**136 499**	168 339
Dividends paid	32	**(832 917)**	(718 941)
		(746 677)	(540 577)
Net increase in cash and cash equivalents		**1 640 893**	3 222 690
Cash and cash equivalents at the beginning of the year		**9 663 275**	6 440 586
Cash and cash equivalents at the end of the year	4	**11 304 168**	9 663 275

Notes to the annual financial statements

Year ended 28 February 2015

1. General information

1.1 Nature of business

The company's main business is retail banking.

1.2 Review of operations

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

The company's earnings attributable to shareholders amounted to R2 457.5 million (2014 : R2 008.8 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is in chapter 2 of the annual report.

1.4 Company details

The company's place of domicile and country of incorporation is the Republic of South Africa.

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

2. Accounting policies

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

2.1 Basis of preparation

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

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

2.2 Cash, cash equivalents and money market funds.

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

2.3 Financial instruments

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

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

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

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

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

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

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

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (2.14.3), and are included in the income statement.

(b) *Loans and advances*

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

(i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(ii) those that the entity upon initial recognition designates as available-for-sale; or

(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(c) *Fixed and term notice deposits*

Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the bank invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than three months, deposit investments with the contractual option to call the funds after a period longer than three months and deposits that have effective contractual notice periods greater than three months. The investments are made with the intention to hold them to maturity and collect the contractual cash flows.

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

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

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

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

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

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

(a) Deposits held at amortised cost

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

(b) Other financial liabilities

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

2.3.3 Offsetting financial instruments

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

2.3.4 Derivative financial instruments and hedging activities

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

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

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

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

The bank designates certain derivatives as:

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

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

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

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 38 and 39. Movements on the hedging reserve in shareholders' equity are shown in note 19.

2.3.5 Resale agreements.
Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of three months are included under cash and cash equivalents. The difference between the purchase and sales' price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

2.4 Impairment of advances

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

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

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

Objective evidence that loans and advances may be impaired includes the following observable data:
(a) A breach of contract, such as a default or delinquency in interest or principal payments. In this regard, instalments past due date are considered in breach of contract.
(b) Historical loss experience of groups of financial assets with similar repayment terms.
(c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank including:
   - adverse changes in the payment status of borrowers in the bank; or
   - national or local economic conditions that correlate with defaults on the assets in the bank.

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

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

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

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

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

2.4.1 Identified impairment

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

These statistics feed discounted cash flow models, which have been developed for each of the loan products offered by the bank. The models are updated periodically in order to reflect appropriate changes in inputs. Models contain both judgemental and non-judgemental inputs. The extent of judgement utilised in models developed for new loan products is greater than that for older products, given the limited historical experience available for the new products.

In outline, the statistical analyses are performed on a portfolio basis as follows:
- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between

default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).

- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days are handed over for collection and written-off. Recoveries from short-term loans are regarded as negligible as collateral is not required for the granting of advances in the current product range. The estimated recoveries on longer-term loans discounted at the contractual rates are recognised in gross loans and advances.
- Upon write-off, the accrual of interest income on the original term of the advance is discontinued.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default (LGD), is taken into account in calculating the impairment allowance.

Loans and advances with outstanding balances that would otherwise have been reflected as past due are included in loans and advances not past due, due to renegotiated payment terms. The renegotiated loans are subject to continuous individual or collective impairment assessment. Loans that were past due and have been renegotiated within the past six months are separately disclosed and are subject to stricter impairment assessment than loans renegotiated more than six months ago. Past due renegotiated loans cease to be disclosed separately if they are up to date six months after being rescheduled. If a rescheduled loan goes into arrears, it forms part of the loans in arrears classification.

2.4.2 Incurred but unidentified impairment

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

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

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

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

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

2.4.3 Loan write-offs

Clients (and the related impairment allowance accounts) are written off at the earliest of when they are in arrears for 90 days or more or legal hand-over occurs.

2.5 Interest-free loans granted

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

2.6 Current tax

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

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

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

2.7 Deferred tax

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

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

2.8 Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

2.9 Computer software

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures are recognised as an expense as incurred.

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

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

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

2.10 Impairment of non-financial assets

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

2.11 Share capital

2.11.1 Categories of share capital

Authorised share capital consists of

- ordinary shares;
- non-redeemable, non-cumulative, non-participating preference shares; and
- compulsorily, convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares.

2.11.2 Share issue costs

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

2.11.3 Dividends declared

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

2.12 Employee benefits

2.12.1 Pension obligations

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

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

2.12.2 Share-based compensation

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

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

2.12.3 Performance incentive scheme

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

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

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

2.13 Foreign currency translation

2.13.1 Functional and presentation currency

Items included in the financial statements of each of the bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in South African Rand ('Rand'), which is the bank's functional and presentation currency.

2.13.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.14 Revenue recognition

2.14.1 Interest income and expense

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

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

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

2.14.2 Fee income

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

2.14.3 Dividend income

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

2.15 Segment reporting

The identification of reportable segments are determined based on a consideration of products and services, organisational structures, geographical areas, economic and regulatory environments and the separable nature of activities or conversely inherent interconnectedness and whether these meet the criteria for aggregation.

2.16 Determination of fair values

Fair values are market- based, calculated first with reference to observable inputs available in the market, then less observable and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistent with the unit of account used for the measurement of the asset or liability in the balance sheet and income statement and assume an orderly market on a going concern basis.

Significant judgements used in the calculation of fair values are present in note 3 and further details regarding the valuation of individual items on the balance sheet are presented in notes 27.9 and 27.10.

2.17 Leases

2.17.1 Where the bank is the lessee

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

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

2.17.2 Where the bank is the lessor

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (1 March 2014)
- Amendment to IAS32 – Offsetting financial assets and financial liabilities (1 March 2014)
- Amendment to IAS 36 – Recoverable amount disclosures for non-financial assets (1 March 2014)
- Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting (1 March 2014)
- IFRIC 21 Levies (1 March 2014)
- Annual Improvements to IFRSs 2012 Cycle

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

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

Certain effective new standards, amendments and interpretations to existing standards have been published that are mandatory for the bank's accounting periods beginning on or after 1 March 2015 or later periods but which the bank has not early adopted, as follows:

- IFRS 9 Financial instruments (effective 1 March 2018)
- Amendments to IFRS 11 – Joint arrangements (effective 1 March 2016)
- IFRS 14 Regulatory deferral accounts (effective 1 March 2016)
- IFRS 15 Revenue from contracts with customers (effective 1 March 2017)
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture (effective 1 March 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization (effective 1 March 2016)
- Amendment to IAS 19 – Employee Benefits (effective 1 March 2015)
- Amendment to IAS 27 – Equity method in separate financial statements (effective 1 March 2016)
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants (effective 1 March 2016)
- Amendments to IAS 1 – Presentation of Financial Statements (effective 1 March 2016)
- Annual Improvements to IFRSs 2012-2014 Cycle

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Impairment losses on loans and advances

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

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

Expected default rates (R'000)	2015	2014
Expected default rates increase by 5%	**50 687**	51 983
Expected default rates decrease by 5%	**(50 764)**	(52 087)

3.2 Segment reporting

Capitec reports a single segment - retail banking within the South African economic environment. The business is widely distributed with no reliance on any major customers. The business sells a single retail bank product, Global One, which enables clients to transact, save and borrow. There are no clients that account for more than 10% of revenue.

The executive management committee assesses information relating to the performance of this single segment on multiple levels and from multiple perspectives. Whilst data analysis facilitates the detailed evaluation of any aspect of the business, all elements are regarded as interconnected and no part of the business can be truly regarded as separable from the rest. Accordingly, any perspective or level of the business reported on, is regarded as having met the aggregation criteria regarding products and services, type or class of customer, distribution method and common regulatory environment.

3.3 Contingent liability

In the annual financial statements for 2013 and 2014 the board reported that a notice had been received from the NCR alleging contraventions of the NCA. On 9 April 2014, the national Consumer Tribunal dismissed the NCR's application against Capitec Bank. On 20 June 2014, Capitec Bank advised that it had received a notice of appeal lodged by the NCR against this judgement. It remains impracticable to estimate the financial effect of any possible outcome. Capitec is still of the view that the matter will be satisfactory resolved through due process.

3.4 Fair values

Fair values of assets and liabilities reported were market-based to reflect the perspective of a market participant.

The level 3 fair value disclosed for loans and advances required the use of significant judgement by management in determining what a market based valuation would be. An income approach was used, which calculated an expected present value in terms of a WACC rate for a hypothetical market participant applied to the valuation cash flows. In summary, this approach calculates a discount rate which reflects the cost to the market participant plus that participant's required rate of return on investment.

The cash flows used were probability weighted and were generated by the same model that was used to generate impairments on loans and advances. The key aspects involving the application of judgement in this valuation are as follows:

– *Large transaction premium*
  The valuation assumes the purchase of the portfolio of advances. Financing this partly via debt would constitute a large transaction in the South African debt markets, which would attract a large transaction size premium.
– *Market risk premium*
  A market risk premium was applied to the equity element in the WACC. This addresses the opportunity cost of other similar available investments on a risk and reward basis, industry cyclicality and the cost of regulation as banking is a regulated industry.
– *Beta*
  The beta used was set prudently with due regard for the five-year beta, calculated on a daily average basis using the Johannesburg Stock Exchange's All Share Index (ALSI) data.
– *Debt-to-equity ratio*
  Equity is regarded as the more expensive component of the WACC. A shift in the assumed debt-to-equity ratio impacts the valuation accordingly.
– *Marketability discount overlay*
  A marketability discount was applied to reflect the relative illiquidity of the investment and the impact of disconnecting the advances book from the supporting bank infrastructure.

R'000	2015	2014

4. Cash, cash equivalents and money market funds

	2015	2014
Cash on hand[(1)]	**2 333 031**	1 617 156
Bank balances	**7 605 220**	7 330 294
Resale agreements[(2)]	**503 787**	–
Short-term corporate bills	**100 649**	–
Central bank balances		
Mandatory reserve deposits with central bank[(3)]	**761 481**	715 825
Cash and cash equivalents	**11 304 168**	9 663 275
Money market unit trusts[(4)]	**8 240**	2 278
Total cash, cash equivalents and money market funds	**11 312 408**	9 665 553
Maximum exposure to credit risk	**11 312 408**	9 665 553
Current	**11 312 408**	9 665 553

(1) *Cash on hand is non-interest bearing.*

(2) *The difference between the purchase and resale price of resale agreements with the counterparty is treated as interest.*

(3) *Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a one month period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not considered as available for normal cash planning purposes. 70% of the balance is available without requiring prior regulatory approval.*

(4) *Money market unit trusts are liquid assets and are taken into consideration for cash planning purposes.*

5. Investments designated at fair value

	2015	2014
Interest-bearing instruments[(1)]		
Balance at the beginning of the year	**4 757 036**	2 022 906
Additions	**2 668 536**	5 427 767
Disposals	**(4 782 966)**	(2 674 554)
Fair value adjustment - Interest rate risk[(2)]	**21 271**	(19 083)
Total investments designated at fair value[(3)]	**2 663 877**	4 757 036
Maximum exposure to credit risk[(4)]	**2 663 877**	4 757 036
Current	**2 663 877**	4 757 036

(1) *Interest-bearing instruments are unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises South African National Treasury bills (treasury bills), 96% (2014: 97%) of the balance and an investment in Negotiable Certificates of Deposits issued by a large South-African bank, 4% (2014: 3%) of the balance.*

(2) *The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 27.10.*

(3) *The Liquid Asset Requirement of R1 524.7 million (2014: R 1 432.0 million) is held for regulatory purposes and consists of National Treasury Bills and SARB debentures. Half of this amount is not available for use as working capital or for settlement purposes.*

(4) *Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. This group of financial assets and their performance is managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.*

6. Term deposit investments

	2015	2014
Term deposit investments		
Balance at the beginning of the year	**–**	–
Additions	**7 269 515**	–
Disposals	**(1 491 041)**	–
Total term deposit investments[(1)(2)]	**5 778 474**	–

(1) *The balance is the maximum exposure to credit risk. All balances are due by banks and have original maturity dates of more than 3 months but less than 1 year. Investments comprise term-to-notice and fixed term instruments. (Refer note 27.1 for ratings).*

(2) *The full amount is current.*

R'000	2015	2014

7. Loans and advances

Maturity analysis

Demand to one month	**1 459 311**	1 389 300
One to three months	**1 728 656**	1 450 303
Three months to one year	**7 223 264**	6 370 670
More than one year	**26 258 524**	24 845 960
Total	**36 669 755**	34 056 233
Deferred loan fee income	**(330 353)**	(368 304)
Gross loans and advances	**36 339 402**	33 687 929
Allowance for impaired loans and advances	**(3 857 370)**	(3 637 176)
Net loans and advances[1] [2]	**32 482 032**	30 050 753

Analysis of net loans and advances by status

Gross	**33 491 814**	30 766 804
Impairment	**(2 334 388)**	(2 073 214)
Current[3]	**31 157 426**	28 693 590
Gross	**883 409**	747 262
Impairment	**(366 671)**	(246 292)
Current – arrears rescheduled in the past six months[4]	**516 738**	500 970
Gross	**1 964 179**	2 173 863
Impairment	**(1 156 311)**	(1 317 670)
Arrears[5]	**807 868**	856 193

Credit quality of current loans and advances[6] [7]

Low risk	**8 359 560**	6 447 079
Medium risk	**20 770 785**	21 591 199
High risk	**4 361 469**	3 475 788
Performing loans	**33 491 814**	31 514 066

Ageing of arrears

< 60 days	**1 654 490**	1 791 273
60 – 90 days	**309 689**	382 590
	1 964 179	2 173 863

R'000	2015	2014

7. Loans and advances *(continued)*

Movement on allowance for impaired advances

Unidentified losses	**2 319 506**	1 859 324
Identified losses	**1 317 670**	863 490
Opening balance	**3 637 176**	2 722 814
Unidentified losses	**381 553**	460 182
Identified losses	**(161 359)**	454 180
Movement	**220 194**	914 362
Unidentified losses	**2 701 059**	2 319 506
Identified losses	**1 156 311**	1 317 670
Closing balance	**3 857 370**	3 637 176

Exposure to credit risk

Loans and advances to clients	**36 669 755**	34 056 233
Conditionally revocable retail loan commitments[8]	**469 496**	440 423
Maximum exposure to credit risk	**37 139 251**	34 496 656

(1) *Loans and advances comprise unsecured loans to individuals.*

(2) *Accrued interest receivable of R 180.0 million is included in loans and advances (2014: R158.2 million).*

(3) *Loans and advances not past due on which a portfolio impairment allowance has been raised are treated as current.*

(4) *These are loans and advances relating to clients that were in arrears and were subsequently rescheduled in line with approved credit policy rules on forebearance. If these loans are up-to-date six months post rescheduling, they are reclassified to current.*

(5) *The definition of arrears and past due loans and advances is the same. Past due loans and advances reflect all a client's outstanding balances, where one or more instalments (or part of an instalment [more than 5% thereof]) (on any of the client's loans) remains unpaid, measured against the contractual payment date, that is from one day past the contractual payment date to 90 days. The definition excludes loans with a handed over status which are written off, as are all outstanding client balances with instalments unpaid more than 90 days.*

(6) *The credit quality of performing loans is based on probability of default (PD) rates.*

(7) *The lower-risk clients qualify for longer-term, lower interest rate loan combinations, while the higher-risk clients are limited to shorter-term, higher interest rate products. The interest rate on a loan can be decreased by selecting a term shorter than the maximum term for which the client qualifies.*

(8) *Conditionally revocable retail loan commitments totalling R469.5 million (2014: R440.4 million)are not included in the maturity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. A total of 22.7% (2014: 21.3%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future draw downs must also occur within the month.*

R'000	2015	2014

8. Other receivables

Rental deposits	**5 026**	3 235
Accrued income[1]	**105 123**	116 500
Prepayments	**94 047**	99 701
	204 196	219 436
Current	**198 257**	217 239
Non–current	**5 939**	2 197

[1] *Accrued income refers to fees and commission receivable from business partners and interbank services rendered.*

9. Derivative assets

Derivatives[1]	**35 847**	202 816
Current	**(3 755)**	20 655
Non-current	**39 602**	182 161

[1] *Refer notes 38 and 39 for more information on derivatives.*

10. Group loans receivable

Loan to fellow subsidiary[1]	**29 993**	29 983

[1] *All loans to group companies are repayable on demand, have no fixed repayment terms and are interest free.*

11. Equipment

R'000	Computer equipment	Office equipment and vehicles	Total
2015			
Opening net book value	**437 631**	**386 326**	**823 957**
Additions	**129 355**	**158 850**	**288 205**
Disposals	**(6 834)**	**(5 821)**	**(12 655)**
Depreciation charge	**(157 443)**	**(124 600)**	**(282 043)**
Net book value at the end of the year	**402 709**	**414 755**	**817 464**
Cost	**960 052**	**1 014 397**	**1 974 449**
Accumulated depreciation	**(557 343)**	**(599 642)**	**(1 156 985)**
Net book value at the end of the year	**402 709**	**414 755**	**817 464**
Non-current	**402 709**	**414 755**	**817 464**
2014			
Cost	622 074	721 272	1 343 346
Accumulated depreciation	(299 551)	(377 577)	(677 128)
Opening net book value	322 523	343 695	666 218
Additions	256 048	151 409	407 457
Disposals	(607)	(317)	(924)
Depreciation charge	(140 333)	(108 461)	(248 794)
Net book value at the end of the year	437 631	386 326	823 957
Cost	868 912	869 890	1 738 802
Accumulated depreciation	(431 281)	(483 564)	(914 845)
Net book value at the end of the year	437 631	386 326	823 957
Non-current	437 631	386 326	823 957

R'000	2015	2014

12. Intangibles

	2015	2014
Computer software[1]		
Cost	**406 237**	265 142
Accumulated amortisation	**(204 918)**	(128 762)
Opening net book value	**201 319**	136 380
Additions	**125 476**	141 103
Scrappings	**(2 016)**	-
Amortisation charge	**(85 904)**	(76 164)
Net book value at the end of the year	**238 875**	201 319
Cost	**523 652**	406 237
Accumulated amortisation	**(284 777)**	(204 918)
Net book value at the end of the year	**238 875**	201 319
Non–current	**238 875**	201 319

[1] *Computer software is primarily comprised of the main banking infrastructure applications.*

13. Deferred income tax assets

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre-payments	Total
2015					
Balance at the beginning of the year	**297 138**	**(31 543)**	**(37 297)**	**(13 169)**	**215 129**
Income statement charge	**64 199**	**–**	**1 594**	**2 083**	**67 876**
Credited to equity through other comprehensive income	**–**	**28 710**	**–**	**–**	**28 710**
Balance at the end of the year[1]	**361 337**	**(2 833)**	**(35 703)**	**(11 086)**	**311 715**
2014					
Balance at the beginning of the year	309 276	6 092	(34 396)	(8 839)	272 133
Income statement charge	(12 138)	–	(2 901)	(4 330)	(19 369)
Credited to equity through other comprehensive income	–	(37 635)	–	–	(37 635)
Balance at the end of the year	297 138	(31 543)	(37 297)	(13 169)	215 129

	2015	2014
Current	**217 329**	143 697
Non–current	**94 386**	71 432

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2014: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.*

R'000	2015	2014

14. Deposits and bonds

By maturity		
Within one month	**20 087 292**	15 291 072
One to three months	**2 031 174**	1 548 149
Three months to one year	**6 037 694**	4 216 738
More than one year	**13 025 145**	14 392 719
Deposits and bonds[1]	**41 181 305**	35 448 678
By nature		
Retail funding		
Retail savings	**19 297 567**	14 616 509
Retail fixed deposits	**10 731 192**	8 984 370
	30 028 759	23 600 879
Institutional bond and other funding[3]		
Subordinated debt – unlisted bonds	**1 010 313**	1 006 352
Subordinated debt – listed bonds[2]	**1 927 088**	1 925 517
Listed senior bonds[2]	**4 891 458**	5 488 667
Other unlisted negotiable instruments	**1 782 273**	1 879 011
Wholesale	**1 301 659**	1 363 714
SARB settlement balance	**239 755**	184 538
	11 152 546	11 847 799
	41 181 305	35 448 678
Amounts payable on maturity of the funding[4]	**45 393 941**	40 409 828

Subordinated debt analysis

Description	Nominal amount	Term	Rate
Subordinated debt- unlisted bonds – floating rate	R250 million	12 year	
• First seven years			3-month JIBAR plus 6.75%
• Last five years if not called by the bank			3-month JIBAR plus 8.00%
Subordinated debt- unlisted bonds – floating rate	R200 million	12 year	
• First seven years			3-month JIBAR plus 5.75%
• Last five years if not called by the bank			3-month JIBAR plus 7.00%
Subordinated debt- unlisted bonds – floating rate	R44 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt- unlisted bonds – floating rate	R500 million	7 year	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	7 year	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	7 year	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	7 year	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	7 year	R204 government bond plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	7 year	3-month JIBAR plus 4.49%

(1) *All deposits and bonds are unsecured.*

(2) *Comprises notes listed on Capitec Bank's DMTN programme registered on the JSE's interest rate board.*

(3) *Institutional bond and other funding issued at variable rates is hedged through interest rate swap agreements as set out in notes 19 and 39. The nominal value of hedged funding consists of:*

Subordinated debt - unlisted bonds	*R994 000 million*	*Subordinated debt - listed bonds*	*R1 122 000 million*
Listed senior bonds	*R2 490 000 million*	*Unlisted negotiable instruments*	*R414 000 million*
Wholesale	*R1 453 849 million*		

(4) *The difference between the amounts payable on maturity and the loans and deposits at amortised cost relates to future finance cost.*

R'000	2015	2014

15. Other liabilities

Trade payables	**334 121**	323 401
Dividends payable	**8 773**	10 176
Accruals	**610 248**	286 079
Share option and share appreciation rights accrual (notes 36 and 37)	**198 736**	253 405
Derivatives (notes 38 and 39)	**22 128**	719
	1 174 006	873 780
Current	**847 917**	628 207
Non-current	**326 089**	245 573

16. Provisions

Performance incentive scheme[1]		
Balance at the beginning of the year	**11 451**	28 449
Addition	**63 117**	2 487
Used during the year	**(10 300)**	(19 485)
Balance at the end of the year	**64 268**	11 451
Non-current	**64 268**	11 451

(1) *Senior management qualifies for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid out in the 2017 and 2018 financial years are included in provisions. The bonus to be paid in the 2016 financial year is included in accruals.*

17. Group loans payable

Loan owing to holding company[2]	**12 139**	9 665
Loan owing to fellow group trust[1]	**1 005**	1 944
	13 144	11 609
Current	**13 144**	11 609

(1) *The loan is interest free and have no fixed repayment terms.*
(2) *Interest is levied at a fixed rate of 6.5% (2014: 6.5%) on R0.9 million (2014: R1.0 million) of the loan to the holding company. Interest received amounted to R0.1 million (2014: R0.1 million). The balance of the loan is interest free and has no fixed terms of repayment.*

R'000	2015	2014

18. Share capital and premium

Authorised		
Ordinary shares		
5 000 000 000 shares of R0.01 each	50 000	50 000
Non-redeemable, non-cumulative, non-participating preference shares[2]		
100 000 000 shares of R0.01 each	1 000	1 000
Compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares		
100 000 000 shares of R0.01 each	1 000	1 000
	52 000	52 000
Issued[1]		
1 300 000 (2014: 1 200 000) shares of R0.01 each at par	13	12
Share premium	6 105 968	5 969 470
Ordinary share capital and premium	6 105 981	5 969 482
2 295 211 (2014: 2 869 014) shares of R0.01 each at par	23	29
Share premium	207 152	258 940
Non-redeemable, non-cumulative, non-participating preference share capital and premium[2]	207 175	258 969
Total issued share capital and premium	6 313 156	6 228 451

[1] *All issued ordinary and preference shares are held by Capitec Bank Holdings Limited and are fully paid up. No ordinary shares were cancelled in the current or prior year.*

[2] *The preference shares carry a coupon rate of 83.33% of the prime rate on a face value of R100 per share. The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. 20% of these shares were repurchased in the 2015 financial year as they no longer contributed to qualifying regulatory capital.*

19. Cash flow hedge reserve

Balance at the beginning of the year	80 865	(15 925)
Amount recognised in comprehensive income during the year	(88 211)	187 644
Amount reclassified from comprehensive income and included in profit and loss for the year	(14 329)	(53 219)
	(21 675)	118 500
Deferred tax recognised in comprehensive income during the year	28 710	(37 635)
Balance at the end of the year[1]	7 035	80 865

[1] *The hedging reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items comprise floating rate DMTN bonds, a bi-lateral US$ denominated floating rate loan, unlisted floating rate subordinated debt, a Rand denominated bi-lateral loan and negotiable floating rate notes ('FRN's'). Refer note 39 for additional disclosure.*

R'000	2015	2014

20. Net interest income

Loans and advances to clients	**10 040 346**	9 000 007
Non-bank money market placements	**91**	1
Money market funds	**524 663**	207 274
Treasury bills	**20 827**	28 576
Bank balances	**7 564**	8 953
Resale agreements	**4 980**	–
Debentures	**18 322**	27 060
Interest-bearing instruments	**165 359**	160 738
Group loans receivable	**7**	89
Interest income[(1)]	**10 782 159**	9 432 698
Retail saving	**(684 513)**	(489 029)
Retail fixed deposits	**(720 008)**	(564 165)
Wholesale	**(118 432)**	(133 857)
Subordinated debt	**(326 249)**	(300 630)
Domestic medium term note	**(437 327)**	(457 996)
Negotiable deposits	**(139 173)**	(187 037)
Interest expense	**(2 425 702)**	(2 132 714)
Net interest income	**8 356 457**	7 299 984

(1) *Included in interest income is R73.0 million (2014: R80.2 million) with respect to interest income accrued on impaired financial assets.*

21. Dividend income

Investments at fair value through profit or loss	**–**	8

22. Net impairment charge on loans and advances

Bad debts	**4 395 602**	3 495 596
Movement in impairment allowance	**220 194**	914 362
Bad debts recovered	**(601 711)**	(433 788)
Net impairment charge	**4 014 085**	3 976 170

R'000	2015	2014

23. Net movement in financial instruments held at fair value through profit or loss

Change in fair value due to risk factors[1]	**21 271**	(19 083)

[1] *The changes in fair value for 2015 relate to interest rate risk (2014: interest rate risk).*

24. Operating profit before tax

The following items have been included in arriving at operating profit before tax:

Loss/(Profit) on disposal of equipment	**(2 994)**	80
Loss on scrapping of intangibles	**2 016**	-
Depreciation on fixed assets	**282 043**	248 794
Amortisation of computer software	**85 904**	76 164
	366 969	325 038
Advertising and marketing	**155 783**	151 009
Bank charges	**175 471**	182 543
Consumables	**141 578**	114 553
Communications	**137 517**	133 590
Operating lease rentals		
Land and buildings	**291 592**	239 162
Office equipment	**3 302**	2 964
	294 894	242 126
Income from subletting	**(4 559)**	(3 861)
Auditors' remuneration		
Audit fees – current year	**3 750**	3 285
Other services	**448**	674
	4 198	3 959
Employee costs (including directors' remuneration)[1]		
Salaries and bonus costs	**1 913 595**	1 427 587
Cash-settled share-based payment	**163 339**	60 035
Cash-settled share appreciation rights	**160 137**	56 104
Social security cost	**36 273**	34 315
Training cost	**47 022**	35 015
Training refund	**(3 343)**	(10 232)
	2 317 023	1 602 824

[1] *Refer note 29 for details of directors' remuneration.*

R'000	2015	2014

25. Income tax expense

Normal company tax	**1 021 564**	761 416
Current tax	**1 021 564**	761 416
Deferred tax	**(67 876)**	19 369
Income tax expense	**953 688**	780 785
Effective tax rate (%)	**28**	28

The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	**3 411 138**	2 789 556
Tax calculated at a tax rate of 28%	**955 119**	781 076
Adjustments for prior periods	**221**	13
Income not subject to tax	**(2 396)**	(7)
Expenses not deductible for tax purposes	**1 950**	704
Allowances not in income statement	**(1 206)**	(1 001)
Income tax expense	**953 688**	780 785

26. Dividends

The company declared the following dividends for the current and previous financial years:

	R'000	Declared	LDT	Date Paid
2015				
Ordinary dividend				
Interim	**283 633**	**25 Sep 2014**	**17 Oct 2014**	**27 Oct 2014**
Final[(1)]	**682 199**	**23 Mar 2015**	**10 Apr 2015**	**20 Apr 2015**
Preference dividend				
Interim	**8 736**	**29 Aug 2014**	**12 Sep 2014**	**22 Sep 2014**
Final	**8 773**	**27 Feb 2015**	**13 Mar 2015**	**23 Mar 2015**
2014				
Ordinary dividend				
Interim	234 055	25 Sep 2013	11 Oct 2013	21 Oct 2013
Final	530 371	24 Mar 2014	10 Apr 2014	22 Apr 2014
Preference dividend				
Interim	10 244	31 Aug 2013	13 Sep 2013	23 Sep 2013
Final	10 176	28 Feb 2014	13 Mar 2014	24 Mar 2014

(1) *The directors declared a final dividend of R682.2 million (2014: R530.4 million) in respect of 2015 on 23 March 2015. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2016, which is in line with recommended accounting practice.*

27. Financial risk management

The board of directors is responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity.

To assist the board, the company is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the company. The board established a risk and capital management committee comprising four independent non-executive directors which operates in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the company environment.

Specific risks are dealt with in a structured manner by the following sub-committees comprising executives and senior management:

- Credit committee – credit and counterparty risk
- Assets and liability committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Risk committee – legal, compliance, technology, operational and reputational risk

The bank operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed with weightings on impact and probability assigned. Existing controls are assessed, and if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

The financial instruments carried on the balance sheet are set out in note 27.9.

27.1 Credit risk

Retail

The bank specialises in granting personal unsecured loans. Exposure to counterparty concentration credit risk is low due to the nature and distribution of the loan book. Exposure to systemic credit risk is regarded as being higher than normal banking activities due to the demographic credit characteristics of the client base. Measures taken by the bank to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances, and accordingly the entire balance as per the balance sheet is exposed to credit risk. The credit quality of loans and advances is disclosed in note 7.

The maximum capital advanced in terms of any one personal loan is R200 000 (2014: R230 000). At balance sheet date the number of outstanding loans was 1 078 398 (2014: 1 035 892).

Investment and counterparty

The bank only invests centrally managed cash surpluses in cash and liquid assets with the SARB, South African registered banking entities and money market funds of high credit standing. Potential exposure to counterparty concentration credit risk exists principally in cash and cash equivalents and interest bearing instruments (notes 4, 5 and 6). Exposure to counterparty credit risk is controlled using ALCO approved limits which are monitored and enforced by the Credit Committee. This ensures that the financial assets that the bank may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's.

At balance sheet date the international long-term credit ratings, using Moody's ratings, were as follows:

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Total carrying amount
2015						
Cash on hand	4	–	2 333 031	–	–	2 333 031
Bank balances[1]	4	2 146 299	5 458 921	–	–	7 605 220
Resale agreements	4	–	–	–	503 787	503 787
Short-term corporate bills	4	–	–	–	100 649	100 649
Central bank balances[3]	4	–	761 481	–	–	761 481
Money market funds[2]	4	–	–	–	8 240	8 240
Treasury bills (> 3 months)	5	–	2 562 436	–	–	2 562 436
Negotiable certificates of deposit (>3 months)	5	–	101 441	–	–	101 441
Term deposit investments	6	1 498 910	4 279 565			5 778 475
Derivative assets	38, 39	23 894	11 953	–	–	35 847
		3 669 103	15 508 828	–	612 676	19 790 607
2014						
Cash on hand	4	–	1 617 156	–	–	1 617 156
Bank balances[1]	4	2 635 383	4 694 909	–	3	7 330 294
Central bank balances[3]	4	–	715 825	–	–	715 825
Money market funds[2]	4	–	–	–	2 278	2 278
Treasury bills (> 3 months)	5	–	4 604 464	–	–	4 604 464
Negotiable certificates of deposit (>3 months)	5	–	152 572	–	–	152 572
		2 635 383	11 784 926	–	2 281	14 422 589

(1) *The bank balances were with 8 institutions (2014: 9), with the maximum exposure to one institution being R3 242 million (2014: R1 494 million).*

(2) *Money market funds consist of money market unit trust and corporate money market investments. The placements were with 5 institutions (2014: 7).*

(3) *All central bank balances are with the SARB, being the mandatory reserve deposit requirement.*

27.2 Geographical concentration of operations

All the bank's operating activities are situated within the Republic of South Africa.

Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:	2015	2014
Eastern Cape	**73**	73
Free State	**37**	37
Gauteng	**200**	183
KwaZulu-Natal	**102**	97
Limpopo	**60**	55
Mpumalanga	**55**	52
North West	**37**	33
Northern Cape	**21**	20
Western Cape	**83**	79
	668	629

27.3 Interest rate risk

The current interest profile is uncomplicated and is monitored by ALCO. Management aims to match the fixed or floating rate nature of funding with the fixed rate elements of the loan book and the fixed and floating rate elements in the surplus cash positions.

The bank operates within the ambit of the National Credit Act when considering interest rates on short-term personal loans and retail advances are only offered at fixed interest rates. The maturity breakdown of the advances book is set out in note 7 and note 27.6.

Fair value interest rate risk

Financial assets and liabilities are mainly accounted for on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk.

Cash flow interest rate risk

The return on surplus cash balances placed in call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and retail demand deposits, resulting in cash flow interest rate risk.

The bank has discretion over the rates offered on its demand savings deposits. Floating rate bond and wholesale deposit liabilities may be hedged using interest rate swaps that match positions and mitigate the negative impact that changing market interest rates can have on the value of the business and annual earnings. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt, thereby reducing fluctuations in future cash flow commitments. Under the terms of the interest rate swaps, the bank agrees with other banking entities to exchange the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts on a quarterly basis.

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The bank operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

27.3 Interest rate risk (continued)

Sensitivity analysis

The ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the bank which includes, inter alia, the results of various models and the impact of interest rate strategy on the gross margin.

The sensitivity analysis below is a run-off analysis and reflects the impact of a 200 basis point increase or decrease in the South African interest rate environment:

- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, floating bond liabilities), excluding the effect of cash flow hedges.
- Assets and liabilities accounted for at fair value through profit and loss (treasury bills that are market-to-market)
- On balance sheet at the reporting date
- The movement in rates was applied as a parallel shift in the applicable yield curves
- Unless otherwise stated, the continuity of items for the purpose of this analysis is the contractual maturity dates.
- The impact on the income statement reflects the effect of the shift in rates over twelve months, on an undiscounted basis, on net interest income, inclusive of the effect of interest rate hedges. Day one valuation adjustments on investments accounted for at fair value through profit and loss; being an increase in value of R26.1 million (2014: R48.1 million) for a 200 basis point decrease and a decline in value of R25.6 million (2014: R46.8 million) for a 200 basis point increase are excluded, as the contractual terms of these instruments have fixed rate cash flows and they are not actively traded.
- The impact on equity reflects the day one change in the valuation of interest rate cash flow hedges accounted for in equity.

	Impact on Income Statement				Impact on Equity			
	2015		2014		2015		2014	
200 basis points (R'000)	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**
Increase	**(5 458)**	**(3 930)**	(44 907)	(32 333)	**204 416**	**147 179**	106 388	76 599
Decrease	**5 458**	**3 930**	44 907	32 333	**(204 416)**	**(147 179)**	(106 388)	(76 599)

27.4 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts. Wholesale loans and deposits (refer note 14) include a foreign denominated loan. Currency exposure is mitigated by hedging instruments (refer notes 38 and 39).

27.5 Other market risk

There is no exposure to other pricing risk.

27.6 Liquidity risk

The bank manages liquidity cautiously and operates an uncomplicated maturity profile which is monitored by ALCO. The matching of the term of funding to the term of the loan book reduces the liquidity risk of the bank.

The table below analyses the bank's assets and liabilities into maturity groupings based on the remaining period, at balance sheet date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to items which have not yet been recorded on the balance sheet (off-balance sheet items), are excluded. Refer note 33.
- Conditionally revocable retail loan commitments totalling R469.5 million (2014: R440.4 million) are not included in the liquidity analysis above. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. A total of 22.7% (2014: 21.3%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future drawdowns must also occur within the month.
- Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities[2] (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[3]	Total
2015							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	761 481	–	–	–	–	761 481
Cash and cash equivalents – banks	4	9 650 232	799 416	–	–	–	10 449 648
Short-term corporate bills	4	–	101 525	–	–	–	101 525
Money markets unit trusts - corporate other	4	8 240	–	–	–	–	8 240
Investments at fair value through profit or loss – sovereigns and banks[4]	5	1 623	577 540	2 169 847	–	–	2 749 010
Term deposit investments	6	273 695	3 761 421	1 830 989	–		5 866 105
Loans and advances to clients – retail personal	7	2 742 847	3 527 985	14 440 262	44 766 238	(330 353)	65 146 979
Loans and advances to clients – retail other	7	7 020	–	–	–	–	7 020
Loans and advances to clients – corporate other	7	13 702	–	–	–	–	13 702
Other receivables	8	105 004	714	–	5 944	–	111 662
Derivative assets	9	(79)	(1 357)	(4 301)	43 485	–	37 748
Current income tax asset		–	–	37 635	–	–	37 635
Group loans receivable	10	29 993	–	–	–	–	29 993
Undiscounted assets		13 593 758	8 767 244	18 474 432	44 815 667	(330 353)	85 320 748
Adjustments for undiscounted assets		(1 308 668)	(1 852 580)	(7 340 117)	(18 511 598)	–	(29 012 963)
Discounted assets							
Loan impairment provision	7	(332 179)	(147 942)	(584 423)	(2 792 826)	–	(3 857 370)
Total discounted assets		11 952 911	6 766 722	10 549 892	23 511 243	(330 353)	52 450 415
Undiscounted liabilities							
Deposits and bonds	14	20 116 795	2 227 827	6 959 632	16 089 687	–	45 393 941
Trade and other payables	15	546 198	263 255	38 464	180 543	145 199	1 173 659
Current income tax liabilities		–	–	–	–	–	–
Group loans payable	17	13 144	–	–	–	–	13 144
Provisions	16	–	–	–	64 268	–	64 268
Undiscounted liabilities		20 676 137	2 491 082	6 998 096	16 334 498	145 199	46 645 012
Adjustments for undiscounted liabilities to depositors		(29 507)	(196 695)	(922 446)	(3 063 640)	–	(4 212 288)
Total discounted liabilities		20 646 630	2 294 387	6 075 650	13 270 858	145 199	42 432 724
Net liquidity excess/(shortfall)		(8 693 719)	4 472 335	4 474 242	10 240 385	(475 552)	10 017 691
Cumulative liquidity excess/(shortfall)[1]		(8 693 719)	(4 221 384)	252 858	10 493 243	10 017 691	10 017 691

[1] *Much of the liquidity shortfall in the demand to three month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted to cash should the need arise.*

[2] *The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.*

[3] *The adjustments include deferred initiation fees, leave pay provision, deferred income and straightlining of lease accruals.*

[4] *96% of investments at fair value through profit or loss – sovereigns & banks relates to investments in sovereigns.*

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities[2] (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[3]	Total
2014							
Undiscounted assets							
Cash and cash equivalents - sovereigns	4	715 825	–	–	–	–	715 825
Cash and cash equivalents - banks	4	7 714 786	1 246 239	–	–	–	8 961 025
Money markets unit trusts	4	2 278	–	–	–	–	2 278
Investments at fair value through profit or loss – sovereigns	5	695 330	285 000	3 791 580	–	–	4 771 910
Loans and advances to clients - retail personal	7	2 201 230	3 059 301	12 798 030	39 899 939	(368 304)	57 590 196
Loans and advances to clients - retail other	7	5 307	–	–	–	–	5 307
Loans and advances to clients - corporate other	7	14 466	–	–	–	–	14 466
Other receivables	8	118 469	51	–	2 197	–	120 717
Derivative assets	9	–	(3 251)	17 932	230 057	–	244 738
Current income tax assets		–	–	22 519	–	–	22 519
Group loans receivable	10	29 983	–	–	–	–	29 983
Undiscounted assets		11 497 674	4 587 340	16 630 061	40 132 193	(368 304)	72 478 964
Adjustments for undiscounted asets		(839 286)	(1 466 995)	(6 591 606)	(15 095 506)	–	(23 993 393)
Discounted assets							
Loan impairment provision	7	(317 583)	(134 230)	(568 546)	(2 616 817)	–	(3 637 176)
Total discounted assets		10 340 805	2 986 115	9 469 909	22 419 870	(368 304)	44 848 395
Undiscounted liabilities							
Deposits and bonds at amortised cost	14	15 315 786	1 739 300	5 137 338	18 217 404	–	40 409 828
Trade and other payables	15	384 192	208 502	35 513	126 717	118 863	873 787
Group loans payable	17	11 609	–	–	–	–	11 609
Provisions	16	–	–	–	11 451	–	11 451
Undiscounted liabilities		15 711 587	1 947 802	5 172 851	18 355 572	118 863	41 306 675
Adjustments for undiscounted liabilities to depositors		(24 714)	(191 151)	(920 600)	(3 824 685)	–	(4 961 150)
Total discounted liabilities		15 686 873	1 756 651	4 252 251	14 530 887	118 863	36 345 525
Net liquidity excess /(shortfall)		(5 346 068)	1 229 464	5 217 658	7 888 983	(487 167)	8 502 870
Cumulative liquidity excess/(shortfall)[1]		(5 346 068)	(4 116 604)	1 101 054	8 990 037	8 502 870	8 502 870

[1] *Much of the liquidity shortfall in the demand to three month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted to cash should the need arise.*

[2] *The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.*

[3] *The adjustments include deferred initiation fees, leave pay provision, deferred income and straightlining of lease accruals.*

27.6 Liquidity risk *(continued)*

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2015								
Undiscounted assets								
Loans and advances to clients – retail personal	7	44 766 238	15 975 151	11 938 417	8 075 238	4 477 127	4 300 305	–
Other receivables	8	5 944	5 720	–	–	–	224	–
Derivative assets	9	43 485	(10 282)	53 403	364	–	–	–
Undiscounted assets		44 815 667	15 970 589	11 991 820	8 075 602	4 477 127	4 300 529	–
Adjustments for undiscounted assets		(18 511 598)	(7 231 074)	(4 724 333)	(2 723 238)	(1 361 300)	(2 471 653)	–
Discounted assets								
Loan impairment provision	7	(2 792 826)	(979 734)	(753 934)	(529 447)	(302 424)	(227 287)	–
Total discounted assets		23 511 243	7 759 781	6 513 553	4 822 917	2 813 403	1 601 589	–
Undiscounted liabilities								
Deposits and bonds	14	16 089 687	5 910 659	3 923 831	2 073 132	3 014 440	1 167 625	–
Trade and other payables	15	180 543	71 026	32 243	17 429	6 581	53 264	–
Provisions	16	64 268	32 709	31 559	–	–	–	–
Undiscounted Liabilities		16 334 498	6 014 394	3 987 633	2 090 561	3 021 021	1 220 889	–
Adjustments for undiscounted liabilities to depositors		(3 063 640)	(1 061 106)	(797 034)	(563 416)	(439 554)	(202 530)	–
Total discounted liabilities		13 270 858	4 953 288	3 190 599	1 527 145	2 581 467	1 018 359	–
Net liquidity excess / (shortfall)		10 240 385	2 806 493	3 322 954	3 295 772	231 936	583 230	–
Cumulative liquidity excess/(shortfall)		10 493 243	3 059 351	6 382 305	9 678 077	9 910 013	10 493 243	10 493 243

27.6 Liquidity risk *(continued)*

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2014								
Undiscounted assets								
Loans and advances to clients - retail personal	7	39 899 939	14 460 101	11 022 631	7 443 534	4 355 481	2 618 192	–
Other receivables	8	2 197	1 977	–	–	–	220	–
Derivative assets	9	230 057	211 085	18 972	–	–	–	–
Undiscounted assets		40 132 193	14 673 163	11 041 603	7 443 534	4 355 481	2 618 412	–
Adjustments for undiscounted assets		(15 095 506)	(6 504 013)	(4 261 074)	(2 386 721)	(1 067 015)	(876 683)	–
Discounted assets								
Loan impairment provision	7	(2 616 817)	(890 236)	(690 835)	(500 730)	(311 485)	(223 531)	–
Total discounted assets		22 419 870	7 278 914	6 089 694	4 556 083	2 976 981	1 518 198	–
Undiscounted liabilities								
Loans and deposits at amortised cost	14	18 217 404	5 548 690	4 854 566	2 680 353	1 869 651	3 208 771	55 373
Trade and other payables	15	126 717	82 857	7 556	3 060	1 436	31 808	–
Provisions	16	11 451	10 208	1 243	–	–	–	–
Undiscounted Liabilities		18 355 572	5 641 755	4 863 365	2 683 413	1 871 087	3 240 579	55 373
Adjustments for undiscounted liabilities to depositors		(3 824 685)	(1 225 538)	(928 650)	(630 775)	(566 056)	(469 551)	(4 115)
Total discounted liabilities		14 530 887	4 416 217	3 934 715	2 052 638	1 305 031	2 771 028	51 258
Net liquidity excess / (shortfall)		7 888 983	2 862 697	2 154 979	2 503 445	1 671 950	(1 252 830)	(51 258)
Cumulative liquidity excess/(shortfall)		8 990 037	11 852 734	14 007 713	16 511 158	18 183 108	16 930 278	16 879 020

27.7 Capital management

The bank's principal objectives when managing capital are to:

- address the expectations of its shareholders and optimise business activities to ensure return on capital targets are achieved through efficient capital management;
- ensure that the bank holds sufficient risk capital (risk capital caters for unexpected losses that may arise, protects shareholders and depositors and thereby assures the sustainability of the bank through the business cycle); and
- comply with the capital supervisory requirements of the SARB as codified in the Banks Act 1990 (as amended) and related regulations.

The bank has an internal capital adequacy assessment process (ICAAP) on an ongoing basis, which drives the bank's position on capital management matters. The ICAAP reviews the historic, current and future capital positioning of the bank, both from an internal and regulatory capital perspective.

The table below summarises the composition of regulatory capital for the bank:

R'000	2015	2014
Composition of qualifying regulatory capital		
Ordinary share capital	**6 105 981**	5 969 482
Accumulated profit	**5 159 602**	3 533 667
	11 265 583	9 503 149
Regulatory adjustments		
– Intangible assets in terms of IFRS	**(238 876)**	(201 318)
– Unappropriated profit	**(482 226)**	(398 291)
Common Equity Tier 1 capital (CET1)	**10 544 481**	8 903 540
Issued preference share capital[6]	**207 175**	258 969
Phase out – non-loss absorbent[1]	**(25 897)**	(51 794)
Additional Tier 1 capital (AT1)	**181 278**	207 175
Tier 1 capital (T1)	**10 725 759**	9 110 715
Issued subordinated debt	**2 891 000**	2 891 000
Phase-out – non-loss absorbent[1]	**(867 300)**	(578 200)
Total subordinated debt	**2 023 700**	2 312 800
Unidentified impairments	**398 251**	328 328
Tier 2 capital (T2)	**2 421 951**	2 641 128
Qualifying regulatory capital	**13 147 710**	11 751 843

R'000	2015	2014

27.7 Capital management *(continued)*

CET1 %	**29.1**	29.9
AT1%	**0.5**	0.7
T1 %	**29.6**	30.6
T2 %	**6.7**	8.9
Total capital adequacy %(2)	**36.3**	39.5
Composition of required regulatory capital		
On balance sheet	**3 186 011**	2 626 363
Off balance sheet	**–**	263
Credit risk	**3 186 011**	2 626 626
Operational risk	**253 273**	197 264
Other assets	**180 093**	153 136
Total regulatory capital requirement(3)	**3 619 377**	2 977 026
Composition of risk-weighted assets(4)		
On balance sheet	**31 860 109**	26 263 630
Off balance sheet	**–**	2 625
Credit risk	**31 860 109**	26 266 255
Operational risk	**2 532 727**	1 972 642
Other assets	**1 800 930**	1 531 355
Total risk-weighted assets	**36 193 766**	29 770 252
Total assets based on IFRS	**53 912 516**	46 188 501
Total risk-weighted assets - adjustments(5)	**(17 718 750)**	(16 418 249)
Total risk-weighted assets - regulatory	**36 193 766**	29 770 252

(1) *Starting 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.*

(2) *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*

(3) *This value is 10% (2014: 10%) of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 2% (2014: 2%). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.*

(4) *Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.*

(5) *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*

(6) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. Twenty per cent of these shares were repurchased in the 2015 financial year as they no longer contributed to qualifying regulatory capital.*

27.8 Gains and losses per category of financial assets and financial liabilities

R'000	Notes	At fair value through profit and loss		At amorised cost		
		Deemed 'held for trading'	Designated at initial recognition	Financial assets	Financial liabilities	Total
2015						
Interest income	20	–	**165 359**	**10 616 800**	–	**10 782 159**
Interest expense	20	–	–	–	**(2 425 702)**	**(2 425 702)**
Loan fee income		–	–	**1 245 881**	–	**1 245 881**
Loan fee expense		–	–	**(626 708)**	–	**(626 708)**
Transaction fee income		–	–	–	**3 672 711**	**3 672 711**
Transaction fee expense		–	–	–	**(1 064 835)**	**(1 064 835)**
Net impairment on loans and advances to clients	22	–	–	**(4 014 085)**	–	**(4 014 085)**
Net movement in financial instruments held at fair value through profit or loss	23	–	**21 271**	–	–	**21 271**
2014						
Interest income	20	–	160 738	9 271 960	–	9 432 698
Interest expense	20	–	–	–	(2 132 714)	(2 132 714)
Loan fee income		–	–	1 306 619	–	1 306 619
Loan fee expense		–	–	(465 916)	–	(465 916)
Transaction fee income		–	–	–	2 786 393	2 786 393
Transaction fee expense		–	–	–	(859 523)	(859 523)
Dividend income	21	–	8	–	–	8
Net impairment on loans and advances to clients	22	–	–	(3 976 170)	–	(3 976 170)
Net movement in financial instruments held at fair value through profit or loss	23	–	(19 083)	–	–	(19 083)

27.9 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

The company's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques, in terms of IFRS 13, is an outcome of internal discussion and deliberation between members of the finance team who have modelling and valuation experience. The valuations are reported to the chief financial officer (CFO) and audit committee (AC). Changes in fair values are analysed at each reporting date.

Hierarchy of fair value of financial instruments

IFRS 13 defines a hierarchy of valuation techniques, with three levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the company's assessment of what inputs would likely be from the perspective of the market. The company first considers relevant and observable market inputs where these are available. Unobservable inputs are used in the absence of observable inputs. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

The fair value hierarchy is applied to both those assets and liabilities measured at fair value through profit and loss and those measured using amortised cost. The table below summarises the classification of financial assets and financial liabilities and their fair values, by their IFRS 13 hierarchy:

		At fair value through profit and loss		At amortised cost				
R'000	Notes	Deemed 'held for trading'	Designated at initial recognition	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2015								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	11 312 408	–	11 312 408	11 312 408	(2)
Investments designated at fair value	5	–	2 663 877	–	–	2 663 877	2 663 877	Level 2
Term deposit investments	6	–	–	5 778 474	–	5 778 474	5 778 474	(2)
Loans and advances to clients	7	–	–	32 482 032	–	32 482 032	36 938 920	Level 3
Other receivables	8	–	–	110 149	–	110 149	110 149	(2)
Derivative assets(1)	9	–	35 847	–	–	35 847	35 847	Level 2
Group loans receivable	10	–	–	29 993	–	29 993	29 993	(2)
Financial liabilities								
Loans and deposits	14	–	–	–	41 181 305	41 181 305	41 407 588	Level 2
- Listed bonds		–	–	–	6 818 546	6 818 546	6 896 747	
- Other fixed-term institutional deposits		–	–	–	4 334 000	4 334 000	4 203 602	
- Retail deposits		–	–	–	30 028 759	30 028 759	30 307 239	
Derivative liabilities(1)		–	22 128	–	–	22 128	22 128	Level 2
Trade and other payables(2)	15	–	–	–	1 151 878	1 151 878	1 151 878	(2)
Provisions	16	–	–	–	64 268	64 268	64 268	(2)
Group loans payable	17	–	–	–	13 144	13 144	13 144	(2)

(1) *Cash flow hedges.*

(2) *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

R'000	Notes	At fair value through profit and loss: Deemed 'held for trading'	At fair value through profit and loss: Designated at initial recognition	At amortised cost: Financial assets	At amortised cost: Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2014								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	9 665 553	–	9 665 553	9 665 553	(2)
Other money market investments	5	–	4 757 036	–	–	4 757 036	4 757 036	Level 2
Loans and advances to clients	7	–	–	30 050 753	–	30 050 753	32 676 984	Level 3
Other receivables	8	–	–	119 735	–	119 735	119 735	Level 2
Derivative assets(1)	9	–	202 816	–	–	202 816	202 816	(2)
Group loans receivable	10	–	–	29 983	–	29 983	29 983	(2)
Financial liabilities								
Loans and deposits at amortised cost	14	–	–	–	35 448 678	35 448 678	35 588 222	Level 2
- Listed bonds		–	–	–	7 414 184	7 414 184	7 493 057	
- Other fixed term institutional deposits		–	–	–	4 433 615	4 433 615	4 284 264	
- Retail deposits		–	–	–	23 600 879	23 600 879	23 810 902	
Derivative liabilities(1)	15	–	719	–	–	719	719	Level 2
Trade and other payables(2)	15	–	–	–	873 061	873 061	872 440	(2)
Provisions	16	–	–	–	11 451	11 451	11 451	(2)
Group loans payable	17	–	–	–	9 665	9 665	9 665	(2)

(1) *Cash flow hedges.*

(2) *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

27.10 Fair value calculation methods, inputs and techniques

Investments designated at fair value

Ninety six percent of the fair value comprises sovereign bills issued by the South African government's National Treasury (Treasury bills). A market approach is used. Investments are marked-to-market using the values published on the South African Multiple External system (SAMEXWeb) interface, the clearing system used by banks. The remaining balance relates to investments in negotiable certificates of fixed-term deposit (NCDs) issued by a large South African bank. These were valued using an income approach, discounting cash flows using benchmark over-the-counter publically quoted rates at the year-end for NCDs that match residual maturity of the underlying instruments. Although all these instruments are designated at fair value through profit and loss, they are normally not traded before their contractual redemption dates.

Loans and advances to clients

An income approach was used. The expected present value technique was applied, discounting probability weighted cash flows (i.e. expected cash flows which take account of lifetime expected bad debt experience) at a market participant's weighted average cost of capital. The respective weightings given to debt and equity assumed a likely ratio for a hypothetical market participant operating in the same industry as Capitec Bank. The equity component of the cost of capital was determined using the capital asset pricing method. A beta more prudent than the five year average was applied. The market risk premium referenced public survey data from a recognised firm of valuators. The risk free rate referenced a basket of government bond. A marketability discount was applied in the valuation to address the fact that the assets, on a stand-alone basis, are not typically traded over-the-counter or on any formal exchange.

27.10 Fair value calculation methods, inputs and techniques *(continued)*

Derivative assets and liabilities

Derivatives, both assets and liabilities, were valued using the income approach. Derivatives comprise interest rate swaps, cross currency interest rate swaps and forward foreign exchange contracts (FECs). Interest rate swaps and cross currency interest rate swaps were fair valued on a discounted basis using forward interest rates and foreign currency rates extracted from observable yield and foreign currency market curves. FECs were valued using applicable forward rates.

Deposits and bonds

Deposits and bonds comprise liabilities with specified terms for future repayment as well as retail deposits with a call feature which allows them to be withdrawn on demand. The fair value of the retail call deposits closely approximates their carrying amount due to their demand nature. The fair values for instruments with specified future repayment terms were calculated as described below.

- *Listed subordinated and senior bonds*

  A market approach was used. Calculations used the all-in closing bond prices provided by the Johannesburg Stock Exchange's Interest Rate and Currency market (JSE IRC). The pricing method used by the JSE IRC links the bond at issue, to a liquid government bond (a companion bond). The companion is chosen so as to best fit the characteristics of the Capitec Bank issue, with the time to maturity being the most important factor. Spread information is obtained from market participants and is used to adjust the price subsequent to issue. Very small and very large trades are excluded due to the inherent discounts associated with large trades as well as the premium often charged for odd-lot trades. The impact of the ratings change on Capitec Bank is included in the market rates for Capitec Bank's listed debt instruments.
- *Unlisted wholesale fixed-term deposits and bonds*

  These comprised unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability. The impact of the ratings change on Capitec Bank is included in the risk premium adjustment and references spreads from recent debt issues done prior to the financial year-end.
- *Retail fixed-term deposits*

  An income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted, closing Capitec Bank fixed-term deposit rates. The relevant rate used was that which matched the remaining maturity of the fixed deposit.

R'000	2015	2014

28. Retirement benefits

The bank contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined contribution fund, is administered independently of the bank and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 24.	**103 137**	90 597

Since 1 July 2001 it is compulsory for all new appointments to be members of the provident fund. The company will continue to contribute to the fund on behalf of all members. The company has no exposure in respect of any post-retirement benefits payable.

R'000	2015	2014

29. Related-party transactions

	2015	2014
Holding company		
Dividends		
Ordinary dividend paid	814 005	698 620
Preference dividend paid	17 510	20 420
Capitec Bank Holdings Limited (holding company)	831 515	719 040
Management fees paid	2 570	2 235
Loans due to:		
Capitec Bank Holdings Limited (holding company)	12 142	9 668
Capitec Bank Holdings Share Trust	1 005	1 944
Parties with significant influence		
Brokers' fees - PSG Group and subsidiaries(1)	70	45
Loans due from:		
Capitec Properties (Pty) Limited (fellow subsidiary)	(29 993)	(29 983)
Key management		
Key management employee's remuneration		
Salaries and other short-term benefits	47 425	37 031
Post-employment benefits	2 426	2 551
Share-based payments	251 349	94 443
Key management compensation(2)	301 200	134 025
Loans and advances to directors and other key management employees included in loans and advances to clients		
Loans outstanding at the beginning of the year	157	157
Loans advanced during the year	–	–
Interest charged on loans during the year	–	–
Loan repayments during the year	(157)	–
Loans outstanding at the end of the year	–	157
Retail deposits from directors and other key management employees(3)		
Deposits at the beginning of the year	4 982	11 576
Interest earned during the year	697	362
Deposits made during the year	9 988	(6 956)
Deposits at the end of the year	15 667	4 982

Directors' interest in contracts

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant contract with the company or any group company, which could have given rise to a conflict of interest during the year.

Directors' interest in share capital

At year-end, the directors, did not hold directly or indirectly, beneficially or non-beneficially, any interest in Capitec Bank Limited ordinary or non-redeemable, non-cumulative, non-participating preference shares.

(1) *PSG Capital is the corporate advisor and sponsor of Capitec Bank Limited. Transactions requiring the purchase of financial instruments on the open market are conducted through a number of intermediaries.*

(2) *Key management are considered to be the members of the executive management committee (excluding development members) and executive directors.*

(3) *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

29. Related-party transactions *(continued)*

Directors' interest in share incentive scheme - options

2015

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ Options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
AP du Plessis	09 Apr 14	21 Apr 08	35.54	31 250	(31 250)	205.99	09 Apr 14	–
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	3 750	(3 750)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	3 750	(3 750)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	01 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	01 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 16	15 Apr 14	196.43	–	5 936	–		5 936
	01 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	01 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 17	15 Apr 14	196.43	–	5 936	–		5 936
	01 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 18	15 Apr 14	196.43	–	5 937	–		5 937
	01 Apr 19	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 19	15 Apr 14	196.43	–	5 937	–		5 937
				130 625	(63 754)			66 871
GM Fourie	09 Apr 14	21 Apr 08	35.54	28 125	(28 125)	205.99	09 Apr 14	–
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	2 500	(2 500)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	2 500	(2 500)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	01 Apr 16	12 Apr 11	160.09	2 500	–	–		2 500
	01 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 16	15 Apr 14	196.43	–	4 582	–		4 582

29. Related-party transactions *(continued)*

Directors' interest in share incentive scheme - options

2015

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ Options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
GM Fourie	01 Nov 16	01 Nov 13	209.83	6 875	–	–		6 875
(direct beneficial)	01 Apr 17	12 Apr 11	160.09	2 500	–	–		2 500
(continued)	01 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 17	15 Apr 14	196.43	–	4 582	–		4 582
	01 Nov 17	01 Nov 13	209.83	6 875	–	–		6 875
	01 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 18	15 Apr 14	196.43	–	4 583	–		4 583
	01 Nov 18	01 Nov 13	209.83	6 875	–	–		6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 19	15 Apr 14	196.43	–	4 583	–		4 583
	01 Nov 19	01 Nov 13	209.83	6 875	–	–		6 875
				150 000	(63 545)			86 455
R Stassen	09 Apr 14	21 Apr 08	35.54	125 000	(125 000)	205.99	09 Apr 14	–
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	62 500	(62 500)	222.50	23 May 14	–
	09 Apr 14	14 Apr 10	97.30	6 250	(6 250)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	7 500	(7 500)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	62 500	(62 500)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	6 250	(6 250)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	7 500	(7 500)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	12 500	(12 500)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	01 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 16	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 17	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–	–		12 500
				348 750	(290 000)			58 750
Total				629 375	(417 299)			212 076

29. Related-party transactions (continued)

Directors' interest in share incentive scheme - share appreciation rights

2015

				Opening balance	(SAR exercised) / SAR granted			Closing balance
Directors	**Maturity date**	**Issue date**	**SAR exercise price R**	**Number of SAR**	**Number of SAR**	**Market price R**	**Exercise date**	**Number of SAR**
AP du Plessis	09 Apr 14	21 Apr 08	35.54	31 250	(31 250)	209.00	11 Apr 14	–
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	209.00	11 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	209.00	11 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	3 750	(3 750)	209.00	11 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	–	–		18 750
	26 Feb 15	14 Apr 10	97.30	3 125	–	–		3 125
	26 Feb 15	12 Apr 11	160.09	3 750	–	–		3 750
	26 Feb 15	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	01 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	01 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 16	15 Apr 14	0.01	–	2 016	–		2 016
	01 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	01 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 17	15 Apr 14	0.01	–	2 016	–		2 016
	01 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 18	15 Apr 14	0.01	–	2 016	–		2 016
	01 Apr 19	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 19	15 Apr 14	0.01	–	2 017	–		2 017
				130 625	(48 810)			81 815
GM Fourie	09 Apr 14	21 Apr 08	35.54	28 125	(28 125)	208.90	10 Apr 14	-
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	208.90	10 Apr 14	-
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	208.90	10 Apr 14	-
	09 Apr 14	12 Apr 11	160.09	2 500	(2 500)	208.90	10 Apr 14	-
	26 Feb 15	15 Apr 09	31.23	18 750	–	–		18 750
	26 Feb 15	14 Apr 10	97.30	3 125	–	–		3 125
	26 Feb 15	12 Apr 11	160.09	2 500	–	–		2 500
	26 Feb 15	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	01 Apr 16	12 Apr 11	160.09	2 500	–	–		2 500
	01 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 16	15 Apr 14	0.01	–	1 556	–		1 556
	01 Apr 17	12 Apr 11	160.09	2 500	–	–		2 500
	01 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–		4 375

29. Related-party transactions *(continued)*

Directors' interest in share incentive scheme - share appreciation rights

2015

				Opening balance	(SAR exercised) / SAR granted			Closing balance
Directors	**Maturity date**	**Issue date**	**SAR exercise price R**	**Number of SAR**	**Number of SAR**	**Market price R**	**Exercise date**	**Number of SAR**
GM Fourie	01 Apr 17	15 Apr 14	0,01	–	1 556	–		1 556
(direct beneficial)	01 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
(continued)	01 Apr 18	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 18	15 Apr 14	0.01	–	1 556	–		1 556
	01 Apr 19	10 Apr 13	201.40	4 375	–	–		4 375
	01 Apr 19	15 Apr 14	0.01	–	1 557	–		1 557
	01 Nov 16	01 Nov 13	209.83	6 875	–	–		6 875
	01 Nov 17	01 Nov 13	209.83	6 875	–	–		6 875
	01 Nov 18	01 Nov 13	209.83	6 875	–	–		6 875
	01 Nov 19	01 Nov 13	209.83	6 875	–	–		6 875
				150 000	(46 275)			103 725
R Stassen	09 Apr 14	21 Apr 08	35.54	125 000	(125 000)	205.99	09 Apr 14	–
(direct beneficial)	09 Apr 14	15 Apr 09	31.23	62 500	(62 500)	205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	6 250	(6 250)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	7 500	(7 500)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	62 500	–	–		62 500
	26 Feb 15	14 Apr 10	97.30	6 250	–	–		6 250
	26 Feb 15	12 Apr 11	160.09	7 500	–	–		7 500
	26 Feb 15	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	01 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 16	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 17	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–	–		12 500
				348 750	(201 250)			147 500
Total				629 375	(296 335)			333 040

29. Related-party transactions *(continued)*

Directors' remuneration

The total share option expense relating to directors amounted to R65 261 352 (2014: R41 788 340) and share appreciation rights expense amounted to R64 084 065 (2014: R39 470 824). This expense includes the movement on all tranches.

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2015						
Executive[1]						
AP du Plessis	**5 520**	**56**	**1 968**	**–**	**7 544**	**2 053**
GM Fourie	**6 408**	**205**	**2 127**	**–**	**8 740**	**1 585**
Non–executive						
MS du P le Roux (Chairman)	**–**	**–**	**–**	**1 200**	**1 200**	**–**
RJ Huntley	**–**	**–**	**–**	**283**	**283**	**–**
JD McKenzie	**–**	**–**	**–**	**483**	**483**	**–**
NS Mjoli–Mncube	**–**	**–**	**–**	**283**	**283**	**–**
PJ Mouton	**–**	**–**	**–**	**427**	**427**	**–**
CA Otto	**–**	**–**	**–**	**531**	**531**	**–**
G Pretorius	**–**	**–**	**–**	**283**	**283**	**–**
R Stassen[3]	**–**	**–**	**–**	**283**	**283**	**–**
JP van der Merwe	**–**	**–**	**–**	**531**	**531**	**–**
	11 928	**261**	**4 095**	**4 304**	**20 588**	**3 638**
2014						
Executive[1]						
AP du Plessis	5 058	60	40	–	5 158	208
GM Fourie[2]	2 373	28	35	–	2 436	327
R Stassen[3]	8 859	105	88	–	9 053	–
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	260	260	–
JD McKenzie	–	–	–	445	445	–
NS Mjoli-Mncube	–	–	–	260	260	–
PJ Mouton	–	–	–	392	392	–
CA Otto	–	–	–	489	489	–
G Pretorius	–	–	–	260	260	–
R Stassen[3]	–	–	–	40	40	–
JP van der Merwe	–	–	–	489	489	–
	16 290	193	163	3 675	20 322	535

[1] *The executive directors and the executive management committee are the prescribed officers of the company.*
[2] *Appointed 20 September 2013.*
[3] *Retired on 31 December 2013 and remained involved as a non-executive director from 1 January 2014. The executive remuneration included remuneration from 1 March 2013 to 31 December 2013.The director's fee is for the period 1 January 2014 to 28 February 2014.*

29. Related-party transactions *(continued)*

The executive management committee (excluding development members) are the prescribed officers of the company.

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year on reporting date
2015					
JC Carstens	**2 460**	**28**	**837**	**3 325**	**530**
W De Bruyn	**471**	**19**	**–**	**490**	**2 957**
CG Fischer	**3 457**	**37**	**1 257**	**4 751**	**956**
HAJ Lourens[(2)]	**2 948**	**96**	**1 018**	**4 062**	**851**
NST Motjuwadi	**2 358**	**27**	**665**	**3 050**	**432**
A Olivier	**3 852**	**42**	**1 196**	**5 090**	**687**
C Oosthuizen	**3 767**	**42**	**1 196**	**5 005**	**943**
CG van Schalkwyk	**2 536**	**30**	**726**	**3 292**	**586**
L Venter	**3 457**	**37**	**1 007**	**4 501**	**652**
	25 306	**358**	**7 902**	**33 566**	**8 594**
2014					
JC Carstens	2 296	30	18	2 343	60
CG Fischer	3 188	39	25	3 252	119
GM Fourie[(1)]	2 540	30	–	2 570	–
HAJ Lourens[(2)]	458	6	17	481	60
NST Motjuwadi	2 150	28	17	2 195	60
A Olivier	3 221	44	29	3 294	179
C Oosthuizen	3 196	44	29	3 269	119
CG van Schalkwyk	2 234	32	20	2 285	60
L Venter	3 179	39	25	3 244	119
	22 461	292	180	22 933	774

The total share option expense relating to prescribed officers above amounted to R61 911 778 (2014: R7 099 855) and share appreciation rights expense amounted to R60 091 696 (2014: R6 083 554). This expense includes the movement on all tranches.

Financial assistance amounting to R429 483 (2014: R787 926) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to R nil (2014: R nil).

(1) *Appointed as a director on 20 September 2013. The remuneration includes remuneration up to September 2013. The fair value of options and rights granted during the year on reporting date is included in the director's remuneration note of the group financial statements.*

(2) *Appointed as a prescribed officer on 1 January 2014. The remuneration includes remuneration from January 2014.*

R'000	2015	2014

30. Cash flow from operations

	2015	2014
Net profit before tax	**3 411 138**	2 789 556
Adjusted for non-cash items		
Fair value adjustments on financial assets	**(21 271)**	19 083
Loan impairment charge	**220 194**	914 362
Depreciation	**282 043**	248 794
Amortisation	**85 904**	76 164
(Profit)/loss on disposal of assets	**(978)**	80
Movements in assets and liabilities		
Loans and advances to clients	**(2 651 473)**	(3 034 849)
Other receivables	**15 240**	(95 856)
Derivatives	**64 429**	-
Deposits and bonds	**5 732 627**	6 368 699
Trade and other payables	**356 298**	75 762
Movements in provisions	**52 817**	(16 998)
Share-based employee costs - options	**(57 804)**	(89 291)
Share-based employee costs - share appreciation rights	**3 135**	(61 729)
Cash flow from operations	**7 492 299**	7 193 777

31. Income taxes paid

	2015	2014
Balance at the beginning of the year	**(22 519)**	46 007
Income statement charge	**953 688**	780 785
Movement in deferred tax	**67 876**	(19 369)
Balance at the end of the year	**37 635**	22 519
Income tax paid	**1 036 680**	829 942

32. Dividends paid

	2015	2014
Balance at the beginning of the year	**10 176**	10 077
Dividend declared during the year:		
Ordinary dividend	**814 004**	698 620
Preference dividend	**17 510**	20 420
Balance at the end of the year	**(8 773)**	(10 176)
Dividends paid	**832 917**	718 941

R'000	2015	2014

33. Commitments and contingent liabilities

Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	307 476	255 012
From one to five years	835 503	738 757
After five years	214 233	215 552
Total future cash flows	1 357 212	1 209 321
Straight-lining accrued	(70 473)	(57 201)
Future expenses	1 286 739	1 152 120
Other operating lease commitments		
Within one year	1 107	2 023
From one to five years	365	1 472
	1 472	3 495
Capital commitments – approved by the board		
Contracted for		
Property and equipment	54 400	26 622
Intangible assets	9 442	8 456
Not contracted for		
Property and equipment	496 697	397 505
Intangible assets	132 395	138 914
	692 934	571 497

Contingent liabilities

Alleged contravention of the NCA

In last year's financial statements the board reported that a notice had been received from the NCR alleging contraventions of the NCA. The National Credit Tribunal dismissed the NCR's application and the NCR lodged an appeal. The matter has been set down to be heard in the Gauteng High Court in February 2016. It remains impracticable to estimate the financial effect of any possible outcome. Capitec is still of the view that the matter will be satisfactorily resolved through due process.

Participation in consortium underwriting the recapitalisaion of African Bank

On 10 August 2014 African Bank Limited was placed into curatorship. Capitec Bank is a participant in a consortium that will underwrite the recapitalisation of African Bank for R10 billion. The other members of the consortium comprise the Public Investment Corporation and five other South African retail banks. The banks have a maximum exposure of 25% of the recapitalisation if the market does not participate. The participation level of each of the banks is based on a formula agreed on between the banks. At as 28 February 2015, the curator had not specified a date for the recapitalisation.

34. Borrowing powers

In terms of the memorandum of incorporation of Capitec Bank Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990) andsection 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the Annual General Meeting on 31 May 2014 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company, on the terms and conditions and for the amount that the board may determine.

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

35. Share incentive scheme

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited (CBHL). The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of CBHL and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of CBHL are financed by the relevant subsidiary.

The bank allows its employees to purchase shares in CBHL up to a value not exceeding 20% (2014: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2014: 20%) and the transaction costs are borne by the company. The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The bank offers share options in CBHL to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee. The share incentive scheme prescribes that European type options, with durations ranging from three to six years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE Limited prior to the date of allocation.

Number	2015	2014
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	**1 502 785**	2 176 825
Options granted	**231 536**	187 500
Options cancelled and/or lapsed	**(625)**	(1 250)
Options exercised	**(1 023 267)**	(860 290)
Balance at the end of the year	**710 429**	1 502 785
Share appreciation rights issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	**1 502 785**	2 176 825
Share appreciation rights granted	**78 597**	187 500
Share appreciation rights cancelled and/or lapsed	**(625)**	(1 250)
Share appreciation rights exercised	**(823 955)**	(860 290)
Balance at the end of the year	**756 802**	1 502 785

35. Share incentive scheme *(continued)*

Analysis of outstanding share options by year of maturity	2015 Weighted average strike price R	2015 Number	2014 Weighted average strike price R	2014 Number
Financial year				
2014/2015	**185.37**	**4 837**	44.72	694 896
2015/2016	**60.35**	**19 779**	77.23	353 612
2016/2017	**181.02**	**234 908**	166.90	177 028
2017/2018	**200.38**	**190 163**	189.96	132 283
2018/2019	**209.21**	**155 976**	200.37	98 091
2019/2020	**214.70**	**104 766**	202.97	46 875
	194.03	**710 429**	94.65	1 502 785

Number	2015	2014
Treasury shares available from previous periods	**–**	4 014
Shares purchased/issued during the year	**1 023 267**	856 276
Shares utilised for settlement of options	**(1 023 267)**	(860 290)
Shares available for settlement of options	**–**	–
Settled in shares	**(1 023 267)**	(860 290)
Options exercised	**(1 023 267)**	(860 290)

36. Share option liability

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. A Black-Scholes option pricing model was used to value the options.[1]

Year granted	Strike price R	Year maturing	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion[2] %	Fair Value R'000	Portion of term expired %	Liability at year end R'000
2009/2010	45.49	2015/2016	6.0	12 500	4 515	95.0	4 309	89.0	3 849
	61.05	2015/2016	6.0	4 095	1 417	95.2	1 349	89.0	1 197
2010/2011	97.3	2016/2017	6.3	41 565	12 902	92.4	11 919	81.7	9 737
	117.79	2015/2016	6.1	3 184	929	97.0	901	91.5	824
		2016/2017	6.3	3 184	926	90.2	835	76.2	637
2011/2012	160.09	2014/2015[3]	6.1	937	227	100.0	227	100.0	227
		2016/2017	6.3	34 193	8 606	92.4	7 950	78.0	6 204
		2017/2018	6.6	34 193	8 685	85.9	7 462	65.0	4 848
2012/2013	182.4	2014/2015[3]	6.1	1 713	389	100.0	389	99.8	389
		2016/2017	6.3	1 713	395	92.9	367	74.8	275
		2017/2018	6.6	1 713	402	86.4	348	59.9	208
		2018/2019	6.8	1 714	410	80.4	329	49.9	164
	198.52	2014/2015[3]	6.1	2 187	446	100.0	446	100.0	446
		2016/2017	6.3	49 498	10 690	92.4	9 876	72.5	7 160
		2017/2018	6.6	49 502	10 968	85.9	9 424	57.9	5 459
		2018/2019	6.8	49 502	11 253	79.9	8 992	48.2	4 337
2013/2014	201.4	2016/2017	6.3	38 125	8 133	92.4	7 513	63.3	4 755
		2017/2018	6.6	38 125	8 357	85.9	7 180	47.4	3 402
		2018/2019	6.8	38 125	8 586	79.9	6 861	37.9	2 598
		2019/2020	6.9	38 125	8 795	74.3	6 536	31.5	2 061
	209.83	2016/2017	6.4	8 750	1 832	88.5	1 622	44.1	715
		2017/2018	6.7	8 750	1 892	82.3	1 558	33.1	515
		2018/2019	6.8	8 750	1 948	76.6	1 492	26.5	395
		2019/2020	7.0	8 750	1 997	71.2	1 422	22.0	314
2014/2015	196.43	2016/2017	6.3	29 880	6 511	92.4	6 015	44.4	2 668
		2017/2018	6.6	29 880	6 672	85.9	5 733	29.4	1 685
		2018/2019	6.8	29 885	6 840	79.9	5 465	22.0	1 201
		2019/2020	6.9	29 891	6 994	74.3	5 198	17.5	912
	253.82	2016/2017	6.4	28 000	4 846	88.5	4 290	15.9	683
		2017/2018	6.7	28 000	5 159	82.3	4 248	10.6	450
		2018/2019	6.8	28 000	5 435	76.6	4 162	8.0	331
		2019/2020	7.0	28 000	5 671	71.2	4 039	6.4	257
Grand total				710 429	162 828	85.0	138 457	49.8	68 903
Note									15

[1] *All options were valued using the Black-Scholes model and the following variables:*
Dividend yield 1.9%
Volatility 31.2%
ex dividend share price 402.32

[2] *Executive staff turnover of 7% p.a. (2014: 7%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

[3] *The Remuneration committee approved a change in the exercise date of all share options, maturing in March 2015 and April 2015, to be exercised in February 2015.*

37. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. Share appreciation rights are expected to vest and are re-estimated on an annual basis.[1]

Year granted	Strike price R	Year maturing	Risk-free rate %	Number of share appreciation rights outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2009/2010	31.23	2014/2015[4]	6.1	133 125	49 264	100.0	100.0	49 264
	45.49	2015/2016	6.1	12 500	4 515	89.3	95.5	3 849
	61.05	2015/2016	6.1	4 095	1 417	88.7	95.2	1 197
2010/2011	97.30	2014/2015[4]	6.1	18 125	5 525	100.0	100.0	5 525
		2016/2017	6.3	41 565	12 902	81.7	92.4	9 737
	117.79	2015/2016	6.1	3 184	929	91.5	97.0	824
		2016/2017	6.3	3 184	-	76.2	90.2	-
2011/2012	160.09	2014/2015[4]	6.1	19 624	4 764	100.0	100.0	4 764
		2016/2017	6.3	34 193	8 606	78.0	92.4	6 204
		2017/2018	6.6	34 193	8 526	65.0	85.9	4 759
2012/2013	182.40	2014/2015[4]	6.1	1 713	389	100.0	100.0	389
		2016/2017	6.3	1 713	395	74.8	92.9	275
		2017/2018	6.6	1 713	402	59.9	86.4	208
		2018/2019	6.8	1 714	410	49.9	80.4	164
	198.52	2014/2015[4]	6.1	31 562	6 440	100.0	100.0	6 440
		2016/2017	6.3	49 498	10 690	72.5	92.4	7 160
		2017/2018	6.6	49 502	10 968	57.9	85.9	5 459
		2018/2019	6.8	49 502	11 253	48.2	79.9	4 337
2013/2014	201.40	2016/2017	6.3	38 125	8 133	63.3	92.4	4 755
		2017/2018	6.6	38 125	8 357	47.4	85.9	3 402
		2018/2019	6.8	38 125	8 586	37.9	79.9	2 598
		2019/2020	6.9	38 125	8 795	31.5	74.3	2 061
	209.83	2016/2017	6.4	8 750	1 438	44.1	88.5	562
		2017/2018	6.7	8 750	1 892	33.1	82.3	515
		2018/2019	6.8	8 750	1 948	26.5	76.6	395
		2019/2020	7.0	8 750	1 997	22.0	71.2	314
2014/2015	0.00	2016/2017	6.3	10 147	3 035	44.4	92.4	1 243
		2016/2017	6.4	9 500	3 771	15.9	88.5	531
		2017/2018	6.6	10 147	3 996	29.4	85.9	1 009
		2017/2018	6.7	9 500	3 699	10.6	82.3	323
		2018/2019	6.8	10 149	3 920	22.0	79.9	688
		2018/2019	6.8	9 500	3 628	8.0	76.6	221
		2019/2020	6.9	10 154	3 847	17.5	74.3	502
		2019/2020	7.0	9 500	3 559	6.4	71.2	161
				756 802	207 996	66.6	93.7	129 835
Note								15

[1] *All rights were valued using the Black-Scholes model and the following variables:*

Dividend yield	*1.9%*
Volatility	*31.2%*
Ex dividend share price (cents)	*402.32*

[2] *Executive staff turnover of 7% p.a. (2014: 7%) was used to estimated likelihood of vesting conditions realising. This is re-estimate in terms of IFRS 2 on an annual basis.*

[3] *As from the 2015 financial year SARs are fully discounted. They are granted at zero consideration. There is no fixed ratio between the number of SARs and share options.*

[4] *The remuneration committee approved a change in the exercise date of all share appreciation rights, maturing in March 2015 and April 2015, to be exercised in February 2015.*

38. Derivative financial instruments: economic hedges

R'000	Notional amount	Fair values Assets	Liabilities
2015			
Forward foreign exchange contracts			
Notional amounts in ZAR	**20 976**	**(1 513)**	**–**
Notional amounts in USD	**1 942**	**–**	**–**
2014			
Forward foreign exchange contracts			
Notional amounts in ZAR	40 951	(982)	19
Notional amounts in USD	3 885	–	–

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R21 million (2014: R41 million).

39. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values Assets	Liabilities
2015			
Interest rate swaps	**6 130 349**	**(29 273)**	**22 127**
Cross currency interest rate swaps	**343 500**	**(5 060)**	**–**
Net	**6 473 849**	**(34 333)**	**22 127**
2014			
Interest rate swaps	3 989 349	(99 533)	700
Cross currency interest rate swaps	396 900	(102 301)	–
Net	4 386 249	(201 834)	700

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
2015					
Discounted swap cash flows	**1 870**	**(1 100)**	**(327)**	**(7 589)**	**(7 146)**
Discounted cross currency interest rate swap cash flows	**–**	**6 197**	**17 508**	**(28 765)**	**(5 060)**
Net	**1 870**	**5 097**	**17 181**	**(36 354)**	**(12 206)**
2014					
Discounted swap cash flows	–	(384)	(29 573)	(68 876)	(98 833)
Discounted cross currency interest rate swap cash flows	–	4 410	12 944	(119 654)	(102 300)
Net	–	4 026	(16 629)	(188 530)	(201 133)

39. Derivative financial instruments: cash flow hedges *(continued)*

Gains and losses recognised in comprehensive income (note 19) on rate swap contracts will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

The forecast cash flows presented above show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates.

At 28 February 2015, the fixed interest rates were between 5.21% and 7.92% (2014: 5.21% and 6.32%) and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 28 February 2015.

The fair value adjustment transferred to the income statement amounted to an income of R36.6 million (2014: R53 million) and has been included in interest expense and other operating expenses in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2015 and 2014. There were no transactions for which cash flow hedge accounting had to be discontinued in 2015 and 2014 as a result of highly probable cash flow no longer being expected to occur.

40. Persons holding more than 5% of the company's issued debt securities

Year ended 28 February 2014 **Holder**	**Instrument held**	**Amount held** **R'000**	**Holding** **%[1]**
Standard Chartered Bank (London) Limited	Wholesale	497 808	38.2%
Nedbank Limited	Wholesale	196 739	15.1%
Sanlam Developing Markets Limited	Wholesale	133 282	10.2%
Shisa Investments Proprietary Limited	Wholesale	106 094	8.2%
Sanlam Investment Management, a division of Sanlam Life Insurance Limited	Wholesale	100 092	7.7%
Channel Life Limited	Wholesale	80 952	6.2%
Sanlam Credit Conduit Proprietary Limited	Wholesale	75 069	5.8%
Sanlam Capital Markets Limited	Wholesale	75 069	5.8%
Stanlib Income Fund	Subordinated unlisted bond	381 033	37.7%
IAL Credit Opps 2 UPF Z	Subordinated unlisted bond	88 301	8.7%
Liberty Group Limited	Subordinated unlisted bond	81 287	8.0%
Investec Credit Opportunities 5 Proprietary Limited	Subordinated unlisted bond	66 455	6.6%
IAL Credit Opps 7 UPF Z	Subordinated unlisted bond	59 280	5.9%
Investec Corporate Bond Fund	Subordinated listed bond	489 904	25.4%
Old Mutual Specialised Finance Offshore Fund	Subordinated listed bond	335 142	17.4%
Investec High Income Fund	Subordinated listed bond	107 582	5.6%
Sanlam Life Insurance Limited	Listed senior bond	657 403	13.4%
Old Mutual Life Assurance Company (South Africa) Limited	Listed senior bond	617 137	12.6%
Government Employment Pension Fund Bonds	Listed senior bond	345 930	7.1%
Stanlib Income Fund	Listed senior bond	300 719	6.1%
Peritum Trading Proprietary Limited	Other unlisted negotiable instruments	249 568	14.0%
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	207 761	11.7%

[1] *Percentage holding is of the respective class of instrument.*

41. Post balance sheet events

New regulations dealing with the assessment of affordability under the National Credit Act, no. 34 of 2005, were published on 13 March 2015. The regulations came into effect on date of publication. Although we comply substantially, adjustments are being implemented to achieve full compliance. We support proper regulation enhancing sustainability of the credit industry.

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

Glossary

05

Acronym	Description
AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
ALSI	JSE All Share Index
AMPS	All Media and Products Survey
AR	Annual report
AT1	Additional tier 1
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
Basel	Basel Committee on Banking Supervision
B-BBEE	Broad-based Black Economic Empowerment
C.Connect	Electronic Communications
C.Net	Web-based employee portal
Capitec	Capitec Bank Holdings Limited
Capitec Bank	Capitec Bank Limited
Capitec Bank pillars	Simplicity, Affordability, Accessibility and Personal Service
CCS	Centralised collection services
CET1	Common equity tier 1
CMT	Continuity management team
CPA	Credit Providers Association
CSI	Corporate Social Investment
DEFRA	UK Department for Environment, Food and Rural Affairs
DMTN	Domestic Medium Term Note Programme
DPS	Dividends per share
DR	Disaster recovery
D-SIB	Domestically systemically important bank
EEA2	Employment Equity Act form 2
EPS	Earnings per Share
EXCO	Executive management committee
FICA	Financial Intelligence Centre Act, 2001
FRN	Floating rate note
FSC	Forest Stewardship Council
GDP	Gross domestic product
GHG	Greenhouse gas
GRI	Global reporting initiative
HEPS	Headline Earnings per Share
IA	Internal Audit
ICAAP	Internal capital adequacy assessment process

Acronym	Description
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
IRM	Integrated risk management
ISMS	Information security management system
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	The 2009 King Report on Corporate Governance
LCR	Liquidity coverage ratio
LDT	Last day of trade
LRP	Liquidity recovery plan
LSM	Living standards measure
Moody's	Moody's Investors Services Inc.
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, 2005
NCD	Negotiable Certificate of Deposit
NCR	National Credit Regulator
NSFR	Net stable funding ratio
OCR	Optical character recognition
PASA	Payments Association of South Africa
PD	Probability of default
POCA	Prevention of Organised Crime Act, 1998
Polproc	Policies and procedures department
POS	Point-of-Sale Merchant
PwC	Pricewaterhouse Coopers Inc.
RCMC	Risk and capital management committee
REMCO	Human resources and remuneration committee
RISCO	Risk committee
ROE	Return on equity
SAMOS	South African Multiple Options Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Services
SARs	Share Appreciation Rights
Stats SA	Statistics South Africa
T2	Tier 2
The group	Capitec Bank Holdings Limited and subsidiaries
WACC	Weighted Average Cost of Capital

Administration and addresses

Capitec Bank Limited

Registration number
1980/003695/06

Auditors
PricewaterhouseCoopers Inc.

Directors
MS du Pré le Roux (Chairman)
GM Fourie (Chief executive officer)
AP du Plessis (Chief financial officer)
RJ Huntley (Ms)
JD McKenzie
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
G Pretorius
R Stassen
JP Verster

Secretary
CG van Schalkwyk

Registered address
1 Quantum Street, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

Website
www.capitecbank.co.za

24hr Client Care Centre
T 0860 10 20 43 **F** 021 941 0770
E clientcare@capitecbank.co.za

Head office
1 Quantum Street, Techno Park, Stellenbosch 7600
PO Box 12451, Die Boord, Stellenbosch 7613
capitecbank.co.za