CAPITEC
BANK
LIMITED

Annual Financial Statements 2016

2016

What are the financial results for the year?

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 statement of financial position as at 29 February 2016, 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 Inc., audited the financial statements and their report is presented on page 4.

The annual financial statements set out on pages 5 to 65 were approved by the board of directors and signed on its behalf on 29 March 2016 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 29 February 2016, 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.

Yolandé Mouton
Stellenbosch
29 March 2016

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 section 94 of the Companies Act (Act 71 of 2008) ('the Act') to the extent applicable.

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

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

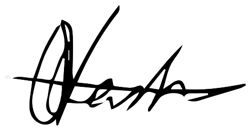
The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 29 February 2016.

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 2016 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 group financial statements for the year ended 29 February 2016 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the JSE Listings requirements, the King III Code and IFRS.
- Undertaken the prescribed functions (in terms of section 94(7) of the Act on behalf of the subsidiary companies of the group.

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

- Considered the sustainability information as disclosed in the integrated report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 29 March 2016, recommended the integrated report for approval by the board of directors.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties.
- The committee 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 group financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).



Jean Pierre Verster
Chairman
29 March 2016

Directors' report

Year ended 29 February 2016

The directors present their annual report to shareholders for the year ended 29 February 2016.

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

No ordinary shares were issued during the year ended 29 February 2016 bringing the number of shares in issue to 1 300 000 (February 2015: 1 300 000).

No ordinary shares were repurchased during the year and 368 707 (February 2015: 573 803) preference shares were repurchased.

Dividends to shareholders

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

	2016	2015
Ordinary dividend (R'000)		
Interim	**433 601**	283 633
Final	**786 264**	682 199
Preference dividend (R'000)		
Interim	**8 277**	8 736
Final	**7 820**	8 773

The final ordinary dividend for 2016 was approved by the directors on 29 March 2016. In terms of the requirements of IFRS no accrual was made for this dividend.

Directors

The directors of the company during the reporting period and as the reporting date are as follows:

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 van der Merwe
(resigned on 20 March 2015)
JP Verster
(appointed 23 March 2015)

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

Company Secretary

The company secretary of the company during the reporting period and as at the reporting date are as follows:

CG van Schalkwyk
(retired on 30 November 2015)
YM Mouton
(appointed 1 December 2015)

Post balance sheet events

The directors are not aware of any other event which is material to the financial position of the company that has occurred between the reporting date of 29 February 2016 and the date of approval of these 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 5 to 65, which comprise the statement of financial position as at 29 February 2016, 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 misstatement, 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 29 February 2016, 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 29 February 2016, 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
29 March 2016

Statement of financial position

As at 29 February 2016

R'000	Notes	2016	2015
Assets			
Cash, cash equivalents and money market funds	4	**14 161 138**	11 312 408
Investments designated at fair value	5	**–**	2 663 877
Held-to-maturity investments	6	**3 634 710**	–
Term deposit investments	7	**7 188 781**	5 778 474
Loans and advances to clients	8	**35 755 444**	32 482 032
Other receivables	9	**210 638**	204 196
Derivative assets	10	**225 403**	35 847
Current income tax asset		**52 702**	37 635
Group loans receivable	11	**109 178**	29 993
Equipment	12	**1 012 202**	817 464
Intangibles	13	**242 648**	238 875
Deferred income tax asset	14	**349 614**	311 715
Total assets		**62 942 458**	53 912 516
Liabilities			
Deposits and bonds	15	**47 940 148**	41 181 305
Other liabilities	16	**1 327 283**	1 174 006
Provisions	17	**107 905**	64 268
Group loans payable	18	**16 336**	13 144
Total liabilities		**49 391 672**	42 432 723
Equity			
Capital and reserves			
Ordinary share capital and premium	19	**6 105 981**	6 105 981
Cash flow hedge reserve	20	**64 147**	7 035
Retained earnings		**7 206 764**	5 159 602
Share capital and reserves attributable to ordinary shareholders		**13 376 892**	11 272 618
Non-redeemable, non-cumulative, non-participating preference share capital and premium	19	**173 894**	207 175
Total equity		**13 550 786**	11 479 793
Total equity and liabilities		**62 942 458**	53 912 516

Income statement

Year ended 29 February 2016

R'000	Notes	2016	2015
Interest income	21	**12 472 792**	10 782 159
Interest expense	21	**(2 883 666)**	(2 425 702)
Net interest income		**9 589 126**	8 356 457
Loan fee income		**1 545 477**	1 245 881
Loan fee expense		**(690 054)**	(626 708)
Transaction fee income		**4 326 103**	3 672 711
Transaction fee expense		**(1 305 890)**	(1 064 835)
Net fee income		**3 875 636**	3 227 049
Net impairment charge on loans and advances to clients	22	**(4 400 637)**	(4 014 085)
Net movement in financial instruments held at fair value through profit or loss	23	**(1 304)**	21 271
Other income		**101**	305
Income from operations		**9 062 922**	7 590 997
Operating expenses		**(4 659 850)**	(4 179 859)
Operating profit before tax	24	**4 403 072**	3 411 138
Income tax expense	25	**(1 224 036)**	(953 688)
Profit for the year		**3 179 036**	2 457 450

Statement of comprehensive income

Year ended 29 February 2016

R'000	Notes	2016	2015
Profit for the year		**3 179 036**	2 457 450
Cash flow hedge recognised during the year	20	**189 037**	(88 211)
Cash flow hedge reclassified to profit and loss for the year	20	**(111 163)**	(14 329)
Cash flow hedge before tax		**77 874**	(102 540)
Income tax relating to cash flow hedge	20	**(20 762)**	28 710
Other comprehensive income that will be reclassified to profit or loss for the year net of tax		**57 112**	(73 830)
Total comprehensive income for the year		**3 236 148**	2 383 620

Statement of changes in equity

Year ended 29 February 2016

(R'000)	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings/ (accumulated loss)	Total
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
Total comprehensive income for the year	**–**	**–**	**57 112**	**3 179 036**	**3 236 148**
Ordinary dividend	**–**	**–**	**–**	**(1 115 810)**	**(1 115 810)**
Preference dividend	**–**	**–**	**–**	**(16 064)**	**(16 064)**
Shares repurchased	**–**	**(33 281)**	**–**	**–**	**(33 281)**
Balance at 29 February 2016	**6 105 981**	**173 894**	**64 147**	**7 206 764**	**13 550 786**
Notes	19	19	20		

Statement of cash flows

Year ended 29 February 2016

R'000	Notes	2016	2015
Cash flow from operating activities			
Cash flow from operations	30	**8 384 139**	7 492 299
Income taxes paid	31	**(1 297 764)**	(1 036 680)
		7 086 375	6 455 619
Cash flow from investing activities			
Purchase of equipment	12	**(511 995)**	(288 205)
Proceeds from disposal of equipment		**23 136**	15 649
Purchase of intangible assets	13	**(124 208)**	(125 476)
Loans to group companies		**(79 185)**	(10)
Investment in term deposit investments	7	**(8 183 090)**	(7 269 515)
Redemption of term deposit investments	7	**6 772 783**	1 491 041
Acquisition of held-to-maturity investments	6	**(4 182 192)**	–
Redemption of held-to-maturity investments	6	**547 482**	–
Acquisition of investments at fair value through profit or loss and money market unit trusts		**(89 147)**	(2 668 536)
Disposal of investments at fair value through profit or loss and money market unit trusts		**2 747 179**	4 777 003
		(3 079 237)	(4 068 049)
Cash flow from financing activities			
Loans from group companies		**3 192**	1 535
Preference shares redeemed	19	**(33 281)**	(51 794)
Ordinary shares issued	19	**–**	136 499
Dividends paid	32	**(1 132 859)**	(832 917)
		(1 162 948)	(746 677)
Net increase in cash and cash equivalents		**2 844 190**	1 640 893
Cash and cash equivalents at the beginning of the year		**11 304 168**	9 663 275
Cash and cash equivalents at the end of the year	4	**14 148 358**	11 304 168

Notes to the annual financial statements

Year ended 29 February 2016

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 sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes thereto.

The company's earnings attributable to shareholders amounted to R3 179.0 million (2015: R2 457.5 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is presented in the directors 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 consolidated 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 significant accounting policies applied in the preparation of these financial statements are set out below. These policies comply with International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRIC), and the requirements of the Companies Act.

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.

Refer to note 2.19 for new standards and interpretations not yet adopted.

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 consolidated 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 instruments designated 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) Held-to-maturity investments

Financial assets at amortised cost are held-to-maturity, non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Interest on held-to-maturity investments calculated using the effective interest method is recognised in the statement of profit or loss as part of interest income.

(c) 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.

(d) 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 to note 2.3.4 with reference to hedging instruments.

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

Interest rate swaps 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 39. Movements on the hedging reserve in shareholders' equity are shown in note 20.

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 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 group 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 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.

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.

Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

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 changed 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 to 5 years
• Automated teller machines	8 years
• Computer equipment	3 to 5 years
• Office equipment	5 to 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 to 5 years
• Desktop application software	2 to 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 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 re-measures 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 on the date of the transaction. Foreign currency balances are translated into rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

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 27.8 and 27.9.

2.17 Leases

2.17.1 Where a 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 IAS 19 – Employee benefits (1 March 2015)
- Annual Improvements to IFRSs 2012 Cycle (1 March 2015)
- Annual Improvements to IFRSs 2013 Cycle (1 March 2015)

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 2016 or later periods but which the bank has not early adopted, as follows:

- Amendments to IFRS 10 and IAS 28 (effective 1 March 2016)
- Amendment to IFRS 11 – Joint arrangements (effective 1 March 2016)
- IFRS 14 Regulatory deferral accounts (effective 1 March 2016)
- Amendments to IAS 1 – Presentation of Financial Statements (effective 1 March 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation (effective 1 March 2016)
- Amendments to IAS 16 (effective 1 March 2016)
- Amendment to IAS 27 – Equity method in separate financial statements (effective 1 March 2016)
- Amendment to IAS 12 – Income taxes (effective 1 March 2017)
- Amendment to IAS 7 – Cash flow statements (effective 1 March 2017)
- IFRS 15 Revenue from contracts with customers (effective 1 March 2018)
- IFRS 9 Financial instruments (effective 1 March 2018)
- Amendment to IFRS 9 – Financial instruments (effective 1 March 2018)
- IFRS 16 – Leases (effective 1 March 2019)
- Annual Improvements to IFRSs 2014 Cycle (1 March 2016)

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 group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 2.4 for the accounting policy regarding the impairment of advances and note 27.1 for credit risk management.

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

R'000	2016	2015
Expected default rates increase by 5%	**55 388**	50 687
Expected default rates decrease by 5%	**(55 610)**	(50 764)

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 liabilities

In the annual financial statements for 2013, 2014 and 2015 the board reported that a notice had been received from the NCR alleging contraventions of the NCA. During February 2016 we became aware of another referral made by the NCR to the National Consumer Tribunal, which referral is also being contested by Capitec Bank. Refer to note 33 for more detail.

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 the loan and advances impairments. The key aspects involving the application of judgement in this valuation are as follows:

- *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 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 JSE 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	2016	2015

4. Cash, cash equivalents and money market funds

Cash on hand[(1)]	**2 648 884**	2 333 031
Bank balances	**9 630 196**	7 605 220
Resale agreements[(2)]	**805 552**	503 787
Short-term corporate bills	**–**	100 649
Treasury bills	**248 329**	–
Central bank balances		
Mandatory reserve deposits with central bank[(3)]	**815 397**	761 481
Cash and cash equivalents	**14 148 358**	11 304 168
Money market unit trusts[(4)]	**12 780**	8 240
Total cash, cash equivalents and money market funds	**14 161 138**	11 312 408
Maximum exposure to credit risk	**14 161 138**	11 312 408
Current	**14 161 138**	11 312 408

(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

Interest-bearing instruments[(1)]		
Balance at the beginning of the year	**2 663 877**	4 757 036
Additions	**84 607**	2 668 536
Disposals	**(2 747 180)**	(4 782 966)
Fair value adjustment – interest rate risk[(2)]	**(1 304)**	21 271
Total investments at fair value	**–**	2 663 877
Maximum exposure to credit risk[(3)]	**–**	2 663 877
Current	**–**	2 663 877

(1) Interest-bearing instruments are unlisted instruments with a maturity greater than three months from date of acquisition.

(2) The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 27.9.

(3) 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.

R'000	2016	2015

6. Held-to-maturity investments

Interest–bearing instruments[1]		
Balance at the beginning of the year	–	–
Additions	4 182 192	–
Maturities	(547 482)	–
Total investments at amortised cost[2]	**3 634 710**	–
Maximum exposure to credit risk[3]	3 634 710	–
Current	3 634 710	–

(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), 89% of the balance and investments in Negotiable Certificates of Deposits issued by various banks, 11% (2015: 0%) of the balance. (Refer to note 27.1 for ratings)

(2) The Liquid Asset Requirement of R1 630.8 million (2015: R1 524.7 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills. The intention is to hold all treasury bills to full maturity.

(3) The full balance is current and is the maximum exposure to credit risk.

7. Term deposit investments

Term deposit investments		
Balance at the beginning of the year	5 778 474	–
Additions	8 183 090	7 269 515
Disposals	(6 772 783)	(1 491 041)
Total term deposit investments[1][2]	**7 188 781**	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 contractually less than 1 year. Investments comprise term-to-notice and fixed term instruments. (Refer to note 27.1 for ratings)

(2) The full balance is current.

8. Loans and advances to clients

R'000	2016	2015
Maturity analysis		
Demand to one month	1 954 547	1 459 311
One to three months	2 188 976	1 728 656
Three months to one year	8 742 135	7 223 264
More than one year	28 582 560	26 258 524
Total	41 468 218	36 669 755
Deferred loan fee income	(581 169)	(330 353)
Gross loans and advances	40 887 049	36 339 402
Allowance for impaired loans and advances	(5 131 605)	(3 857 370)
Net loans and advances to clients[1] [2]	35 755 444	32 482 032
Analysis of net loans and advances by status		
Gross	35 229 443	32 361 431
Impairment	(2 697 102)	(2 128 071)
Current[3]	32 532 341	30 233 360
Provision %	7.7	6.6
Gross	1 817 885	1 130 383
Impairment	(287 644)	(206 317)
Current – rescheduled from current not rehabilitated[9]	1 530 241	924 066
Provision %	15.8	18.3
Gross	1 542 283	883 409
Impairment	(758 244)	(366 671)
Current – rescheduled from arrears not rehabilitated [4][9]	784 039	516 738
Provision %	49.2	41.5
Gross	2 297 438	1 964 179
Impairment	(1 388 615)	(1 156 311)
Arrears[5]	908 823	807 868
Provision %	60.4	58.9
Credit quality of performing loans and advances[6][7]		
Low risk	8 729 723	8 359 560
Medium risk	21 451 881	20 770 785
High risk	6 865 724	4 361 469
Performing loans	37 047 328	33 491 814

R'000	2016	2015

8. Loans and advances to clients (continued)

Ageing of arrears		
<60 days	**1 971 940**	1 654 490
60 – 90 days	**325 498**	309 689
	2 297 438	1 964 179

Movement for impaired advances		
Unidentified impairments	**2 701 059**	2 319 506
Identified impairments	**1 156 311**	1 317 670
Opening balance	**3 857 370**	3 637 176
Unidentified impairments	**1 041 931**	381 553
Identified impairments	**232 304**	(161 359)
Movement	**1 274 235**	220 194
Unidentified impairments	**3 742 990**	2 701 059
Identified impairments	**1 388 615**	1 156 311
Closing balance	**5 131 605**	3 857 370

Exposure to credit risk		
Loans and advances to clients	**41 468 218**	36 669 755
Conditionally revocable retail loan commitments(8)	**203 515**	469 496
Maximum exposure to credit risk	**41 671 733**	37 139 251

(1) Loans and advances comprise unsecured loans to individuals.
(2) Accrued interest receivable of R232.7 million is included in loans and advances (2015: R180.0 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 for impairment allowance purposes.
(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 R203.5 million (2015: R469.5 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 group has determined that the client's credit risk profile has changed. A total of 34% (2015: 23%) 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.
(9) Clients are deemed to be rehabilitated once they have made six consecutive contractual payments.

9. Other receivables

Deposits	**28 707**	5 026
Accrued income(1)	**86 774**	105 123
Prepayments(2)	**95 157**	94 047
Total other receivables	**210 638**	204 196
Current	**208 449**	198 257
Non-current	**2 189**	5 939

(1) Accrued income refers to fees and commission receivable from business partners and interbank services rendered.
(2) Prepayments refers to monthly rental paid in advance and client cards.

R'000	2016	2015

10. Derivative assets

Derivatives [1]	225 403	35 847
Current	6 214	(3 755)
Non-current	219 189	39 602

(1) Refer to notes 38 and 39 for more information on derivatives.

11. Group loans receivable

Loan to share incentive trust	4 157	–
Loan to fellow subsidiary [1]	105 021	29 993
Total group loans receivable	**109 178**	**29 993**
Current	109 178	29 993

(1) All loans to group companies are repayable on demand, bear interest as agreed by the parties from time to time and no fixed repayment terms have been set.

12. Equipment

R'000	Computer equipment	Office equipment and vehicles	Total
2016			
Opening net book value	402 709	414 755	817 464
Additions	304 958	207 037	511 995
Disposals	(9 337)	(2 821)	(12 158)
Depreciation charge	(166 369)	(138 730)	(305 099)
Net book value at the end of the year	531 961	480 241	1 012 202
Cost	1 228 916	1 202 715	2 431 631
Accumulated depreciation	(696 955)	(722 474)	(1 419 429)
Net book value at the end of the year	531 961	480 241	1 012 202
Non-current	531 961	480 241	1 012 202
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

R'000	2016	2015

13. Intangible assets

Computer software [(1)]		
Cost	**523 652**	406 237
Accumulated amortisation	**(284 777)**	(204 918)
Opening net book value	**238 875**	201 319
Additions	**124 208**	125 476
Scrappings	**(22 904)**	(2 016)
Amortisation charge	**(97 531)**	(85 904)
Net book value at the end of the year	**242 648**	238 875
Cost	**604 969**	523 652
Accumulated amortisation	**(362 321)**	(284 777)
Net book value at the end of the year	**242 648**	238 875
Non-current	**242 648**	238 875

(1) Computer software is primarily comprised of the main banking infrastructure applications.

14. Deferred income tax asset

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre-payments	Total
2016					
Balance at the beginning of the year	**361 337**	**(2 833)**	**(35 703)**	**(11 086)**	**311 715**
Income statement charge	**62 975**	**–**	**(1 797)**	**(2 517)**	**58 661**
Debited to equity through other comprehensive income	**–**	**(20 762)**	**–**	**–**	**(20 762)**
Balance at the end of the year [(1)]	**424 312**	**(23 595)**	**(37 500)**	**(13 603)**	**349 614**
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	361 337	(2 833)	(35 703)	(11 086)	311 715

	2016	2015
Current	213 700	217 329
Non-current	135 914	94 386

(1) Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2015: 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	2016	2015

15. Deposits and bonds

By maturity		
Within one month	**25 042 666**	20 087 292
One to three months	**3 350 970**	2 031 174
Three months to one year	**6 770 557**	6 037 694
More than one year	**12 775 955**	13 025 145
Total deposits and bonds[(1)]	**47 940 148**	41 181 305

By nature		
Retail funding		
Retail savings	**24 152 425**	19 297 567
Retail fixed deposits	**13 634 429**	10 731 192
	37 786 854	30 028 759
Institutional bond and other funding[(3)]		
Subordinated debt – unlisted bonds	**1 008 466**	1 010 313
Subordinated debt – listed bonds[(2)]	**1 928 779**	1 927 088
Listed senior bonds[(2)]	**4 351 702**	4 891 458
Unlisted negotiable instruments	**1 296 456**	1 782 273
Wholesale	**1 411 592**	1 301 659
SARB settlement balance	**156 299**	239 755
	10 153 294	11 152 546
	47 940 148	41 181 305

Amounts payable on maturity of the funding[(4)]	**52 253 412**	45 393 941

(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 20 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	*R950 000 million*
Unlisted negotiable instruments	*R455 000 million*
Wholesale	*R848 849 million*

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

15. Deposits and bonds (continued)

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	3-month JIBAR plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	7 year	3-month JIBAR plus 4.49%

16. Other liabilities

R'000	2016	2015
Trade payables	**470 275**	334 121
Dividends payable	**7 787**	8 773
Accruals	**655 617**	610 248
Share option and share appreciation rights accrual (notes 36 and 37)	**193 604**	198 736
Derivatives (note 38 and 39)	**–**	22 128
Total other liabilities	**1 327 283**	1 174 006
Current	**921 139**	847 917
Non-current	**406 144**	326 089

R'000	2016	2015

17. Provisions

Performance incentive scheme[(1)]		
Balance at the beginning of the year	64 268	11 451
Addition	77 884	63 117
Used during the year	(34 247)	(10 300)
Balance at the end of the year	107 905	64 268
Non-current	107 905	64 268

(1) Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid out in the 2018 and 2019 financial years are included in provisions. The bonus to be paid in the 2017 financial year is included in accruals.

18. Group loans payable

Loan owing to holding company[(1)]	16 336	12 139
Loan owing to fellow group trust[(2)]	–	1 005
Total group loans payable	16 336	13 144
Current	16 336	13 144

(1) Interest is levied at a fixed rate of 6.5% (2015: 6.5%) on R1.4 million (2015: R0.9 million) of the loan to the holding company. Interest received amounted to R0.1 million (2015: R0.1 million). The balance of the loan is interest free and has no fixed terms of repayment.
(2) The loan is interest free and have no fixed repayment terms.

19. Share capital and premium

Authorised		
Ordinary shares		
500 000 000 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[(3)]		
100 000 000 shares of R0.01 each	–	1 000
Loss absorbent preference shares (conversion)[(3)]		
100 000 000 shares of R0.01 each	1 000	
Loss absorbent preference shares (write-off)[(3)]		
100 000 000 shares of R0.01 each	1 000	–
	53 000	52 000
Issued[(1)]		
1 300 000 (2015: 1 300 000) shares of R0.01 each at par	13	13
Share premium	6 105 968	6 105 968
Ordinary share capital and premium	6 105 981	6 105 981
1 926 504 (2015: 2 295 211) shares of R0.01 each at par	19	23
Share premium	173 875	207 152
Non-redeemable, non-cumulative, non-participating preference share capital and premium[(2)]	173 894	207 175
Total issued share capital and premium	6 279 875	6 313 156

(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. At year-end, 32.85% (2015: 20.00%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.
(3) Effective 9 July 2015 the authorised share capital of Capitec Bank was increased from R52 million to R53 million by the creation of 100 000 000 loss-absorbent preference shares (write-off) with a par value of R0.01 each. In addition, the authorised, but unissued compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares were substituted for 100 000 000 loss-absorbent preference shares (conversion) with a par value of R0.01 each

R'000	2016	2015

20. Cash flow hedge reserve

Balance at the beginning of the year	**7 035**	80 865
Amount recognised in comprehensive income during the year	**189 037**	(88 211)
Amount reclassified from comprehensive income and included in profit and loss for the year	**(111 163)**	(14 329)
	84 909	(21 675)
Deferred tax recognised in comprehensive income during the year	**(20 762)**	28 710
Balance at the end of the year [(1)]	**64 147**	7 035

(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 (FRNs). Refer to note 39 for additional disclosure.

21. Net interest income

Loans and advances to clients	**11 289 802**	10 040 346
Non-bank money market placements	**132**	91
Money market funds and term deposit investments	**924 659**	524 663
Treasury bills	**13 695**	20 827
Bank balances	**2 278**	7 564
Resale agreements	**7 920**	4 980
Debentures	**3 652**	18 322
Interest-bearing instruments	**230 654**	165 359
Group loans receivable	**–**	7
Interest income [(1)]	**12 472 792**	10 782 159
Retail savings	**(950 439)**	(684 513)
Retail fixed deposits	**(926 543)**	(720 008)
Other unlisted wholesale	**(133 212)**	(118 432)
Subordinated debt	**(342 477)**	(326 249)
Domestic medium term note	**(398 829)**	(437 327)
Negotiable deposits	**(130 911)**	(139 173)
Other	**(1 255)**	–
Interest expense	**(2 883 666)**	(2 425 702)
Net interest income	**9 589 126**	8 356 457

(1) Included in interest income is R86.5 million (2015: R73.0 million) with respect to interest income accrued on impaired financial assets.

R'000	2016	2015

22. Net impairment charge on loans and advances to clients

	2016	2015
Bad debts	3 980 854	4 395 602
Movement in impairment allowance	1 274 235	220 194
Bad debts recovered	(854 452)	(601 711)
Net impairment charge	4 400 637	4 014 085

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

	2016	2015
Change in fair value due to risk factors[1]	(1 304)	21 271

(1) The changes in fair value for 2016 relate to interest rate risk (2015: interest rate risk).

24. Operating profit before tax

The following items are included in operating profit before tax:

	2016	2015
Profit on disposal of equipment	(10 978)	(2 994)
Loss on scrapping of intangibles	22 904	2 016
Depreciation on fixed assets	305 099	282 043
Amortisation of computer software	97 531	85 904
	414 556	366 969
Advertising and marketing	169 138	155 783
Bank charges	206 120	175 471
Consumables	165 948	141 578
Communications	139 702	137 517
Operating lease rentals		
Land and buildings	344 995	291 592
Office equipment	2 188	3 302
	347 183	294 894
Income from subletting	(2 707)	(4 559)
Auditors' remuneration		
Audit fees – current year	4 075	3 750
Other services	464	448
	4 539	4 198
Employee costs		
Salaries and bonus costs	2 228 554	1 913 595
Cash-settled share-based payment	94 340	163 339
Cash-settled share appreciation rights	102 512	160 137
Social security cost	53 316	36 273
Training cost	57 613	47 022
Training refund	(4 163)	(3 343)
	2 532 172	2 317 023

R'000	2016	2015

25. Income tax expense

	2016	2015
Current tax	**1 282 697**	1 021 564
Deferred tax	**(58 661)**	(67 876)
Income tax expense	**1 224 036**	953 688
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:

	2016	2015
Operating profit before tax	**4 403 072**	3 411 138
Tax calculated at a tax rate of 28%	**1 232 860**	955 119
Adjustments for prior periods	**(667)**	221
Income not subject to tax	**(2 516)**	(2 396)
Expenses not deductible for tax purposes	**198**	1 950
Allowances not in income statement	**(5 839)**	(1 206)
Income tax expense	**1 224 036**	953 688

26. Dividends

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

R'000	Rand	Declared	LDT	Date Paid
2016				
Ordinary dividend				
Interim	**433 601**	**28 Sep 2015**	**16 Oct 2015**	**26 Oct 2015**
Final[(1)]	**786 264**	**29 Mar 2016**	**15 Apr 2016**	**25 Apr 2016**
Preference dividend				
Interim	**8 277**	**28 Aug 2015**	**17 Sep 2015**	**28 Sep 2015**
Final	**7 820**	**29 Feb 2016**	**16 Mar 2016**	**29 Mar 2016**
2015				
Ordinary dividend				
Interim	283 633	25 Sep 2014	17 Oct 2014	27 Oct 2014
Final	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

(1) The directors declared a final dividend of R786.3 million (2015: R682.2 million) in respect of 2016 on 29 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 2017, 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 entity. 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 (RCMC) 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 subcommittees comprising executives and senior management:
- Credit committee – credit and counterparty risk
- Assets and liability committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- 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 27.8.

27.1 Credit Risk

Retail lending

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 8.

Credit risk is managed through every stage of the credit life cycle by following a combination of governance, decision support and business support. Governance includes regulators, industry associations, the bank's financial governance and committees which supports and influences credit strategy. Decision support is a specialist credit risk statistical analysis team that develops credit models and scorecards that are aligned with business strategies and credit risk appetite. Credit risk management is provided by other areas of business to ensure optimisation of the granting, collections and recoveries models and systems.

The maximum capital advanced in terms of any one personal loan is R 250 000 (2015: R 200 000). At balance sheet date the number of outstanding loans was 1 485 081 (2015: 1 078 398).

Investment and counterparty

The bank only invests centrally managed cash surpluses in cash and liquid assets with the SARB, National Treasury, 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, interest bearing instruments and term deposit investments (notes 4, 5, 6 and 7). 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.

27.1 Credit risk (continued)

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
2016						
Cash on hand	4	–	2 648 884	–	–	2 648 884
Bank balances[1]	4	–	9 630 087	–	109	9 630 196
Resale agreements[4]	4	–	–	–	805 552	805 552
Central bank balances[3]	4	–	815 397	–	–	815 397
Treasury bills (<3 months)	4	–	248 329	–	–	248 329
Money market funds[2]	4	–	–	–	12 780	12 780
Treasury bills (>3 months)	6	–	3 218 060	–	–	3 218 060
Negotiable certificates of deposit (>3 months)	6	150 650	266 000	–	–	416 650
Term deposit investments	7	1 933 518	4 888 710	–	366 553	7 188 781
Derivative assets	38, 39	213 695	11 708	–	–	225 403
		2 297 863	21 727 175	–	1 184 994	25 210 032
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]	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	7	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

(1) The bank balances were with 8 institutions (2015: 8), with the maximum exposure to one institution being R5 013 million (2015 : R3 242 million).

(2) Money market funds consist of money market unit trusts. The placements were with 5 institutions (2015: 5).

(3) All central bank balances are with the SARB and include the mandatory reserve deposit requirement.

(4) As part of the resale agreements, the bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to R824.1 million (2015: R513.9 million) of which Rnil have been sold or repledged.

27.2 Interest rate risk

The current bank interest rate profile is monitored by ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the bank, including inter alia, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio. The exposure to interest rate risk is managed within board approved tolerances. In short, management aims to match the fixed or floating rate nature of funding with the fixed or floating rate elements of the loan book and surplus cash positions.

Capitec Bank's interest rate risk position is primarily the result of offering fixed-rate retail term loans and a conservative liquidity strategy. Interest rate risk has a number of drivers including mismatches in the repricing of assets and liabilities, changes in yield curve risk, optionality inherent in certain products and basis risk. Interest rate risk has either an impact on cash flows or on fair values.

Fair value interest rate risk

Fair value interest rate risk is the risk that assets and liabilities accounted for on a fair value basis will change as a result of changes in market interest rates, impacting annual earnings and equity. Financial assets and liabilities are mainly accounted for on an amortised cost basis, therefore the fair value interest rate risk does not significantly impact the results. Fair value interest rate risk affects the value of investments designated at fair value (with adjustments in the income statement) and the value of cash flow hedges (with adjustments accounted for in the statement of other comprehensive income).

Cash flow interest rate risk

Cash flow interest rate risk is where actual cash flows are impacted by changes in market interest rates. For assets contracted at fixed rates the risk is that rates will rise and the opportunity cost of receipting higher cash flows based on higher rates is foregone. For floating rate assets the risk is that rates will fall reducing cash returns. The opposite occurs for liabilities. Cash, cash equivalents, money market funds and term deposit investments are invested in instruments earning a fixed rate of interest or in those paying interest based on a floating rate. The bank has discretion over the rates paid on its demand savings deposits. Capitec Bank pays a fixed rate of interest on its fixed-term retail deposits. Bonds and wholesale deposit liabilities comprise a mix of floating and fixed rate instruments.

Floating rate bond and wholesale deposit liabilities may be hedged using interest rate swaps, which mitigate the impact that changing market interest rates can have on 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 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.

27.2 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 include, *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.
- The impact on the income statement reflects the effect of the shift in rates over 12 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 R26.2 million (2015) for a 200 basis point decrease and a decline in value of R25.6 million (2015) 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			
	2016		2015		2016		2015	
200 basis points R'000	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**
Increase	(25 482)	(18 347)	(5 458)	(3 930)	124 353	89 534	204 416	147 179
Decrease	25 482	18 347	5 458	3 930	(124 353)	(89 534)	(204 416)	(147 179)

27.3 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 15) include a foreign denominated loan. The currency exposure is fully hedged using a cross currency swap (refer note 39).

27.4 Other market risk

There is no exposure to other types of pricing risk.

27.5 Liquidity risk

The bank manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by ALCO in terms of an approved Asset and Liability Management (ALM) policy. The maturity profile reflects the deliberate strategy of funding longer term assets with a significant portion of long term funding with limited use of core call deposit funding. Our conservative approach at times results in the holding of cash in excess of immediate operational requirements. 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.

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. Please refer to note 33.
- conditionally revocable retail loan commitments totalling R203.5 million (2015: R469.5 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 34% (2015: 23%) of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future draw downs must also occur within the month.
- adjustments to loans and advances to clients relate to initiation fee income.
- non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

27.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities (discounted cash flows)(2) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment(3)	Total
2016							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	815 397	–	–	–	–	815 397
Cash and cash equivalents – banks	4	9 826 054	3 539 220	–	–	–	13 365 274
Money markets unit trusts – corporate other	4	12 780	–	–	–	–	12 780
Investments at amortised cost – sovereigns and banks(4)	6	300 000	1 164 862	2 259 519	–	–	3 724 381
Term deposit investments	7	507 685	3 120 278	3 760 798	–		7 388 761
Loans and advances to clients – retail personal	8	3 000 335	4 221 805	16 606 143	45 068 671	(581 169)	68 315 785
Loans and advances to clients – corporate other	8	11 448	–	–	–	–	11 448
Other receivables	9	82 858	5 437	–	27 186	–	115 481
Derivative assets	10	(1 037)	1 159	6 428	263 048	–	269 598
Current income tax asset		–	–	52 702	–	–	52 702
Group loans receivable	11	109 178	–	–	–	–	109 178
Undiscounted assets		14 664 698	12 052 761	22 685 590	45 358 905	(581 169)	94 180 785
Adjustments for undiscounted assets		(1 062 596)	(2 116 588)	(8 097 188)	(16 529 971)	–	(27 806 343)
Discounted assets							
Loan impairment provision	8	(496 738)	(224 566)	(811 650)	(3 598 651)	–	(5 131 605)
Total discounted assets		13 105 364	9 711 607	13 776 752	25 230 283	(581 169)	61 242 837
Undiscounted liabilities							
Deposits and bonds	15	25 079 370	3 568 686	7 750 131	15 855 225	–	52 253 412
Trade and other payables	16	631 953	261 916	27 270	233 237	172 907	1 327 283
Group loans payable	18	16 336	–	–	–	–	16 336
Provisions	17	–	–	–	107 905	–	107 905
Undiscounted liabilities		25 727 659	3 830 602	7 777 401	16 196 367	172 907	53 704 936
Adjustments for undiscounted liabilities to depositors		(36 704)	(217 716)	(979 574)	(3 079 270)	–	(4 313 264)
Total discounted liabilities		25 690 955	3 612 886	6 797 827	13 117 097	172 907	49 391 672
Net liquidity excess/ (shortfall)		(12 585 591)	6 098 721	6 978 925	12 113 186	(754 076)	11 851 165
Cumulative liquidity excess/ (shortfall)(1)		(12 585 591)	(6 486 870)	492 055	12 605 241	11 851 165	11 851 165

(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 adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income and straight-lining of lease accruals.
(4) 89% of Held-to-maturity investments – sovereigns and banks relates to investments in sovereigns.

27.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities (discounted cash flows)[2] R'000	Note	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	7	273 695	3 761 421	1 830 989	–	–	5 866 105
Loans and advances to clients – retail personal	8	2 742 847	3 527 985	14 440 262	44 766 238	(330 353)	65 146 979
Loans and advances to clients – retail other	8	7 020	–	–	–	–	7 020
Loans and advances to clients – corporate other	8	13 702	–	–	–	–	13 702
Other receivables	9	105 004	714	–	5 944	–	111 662
Derivative assets	10	(79)	(1 357)	(4 301)	43 485		37 748
Current income tax assets		–	–	37 635	–	–	37 635
Group loans receivable	11	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	8	(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 at amortised cost	15	20 116 795	2 227 827	6 959 632	16 089 687	–	45 393 941
Trade and other payables	16	546 198	263 255	38 464	180 543	145 199	1 173 659
Group loans payable	18	13 144	–	–	–	–	13 144
Provisions	17	–	–	–	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 adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income and straight-lining of lease accruals.

(4) 96% of Investments at fair value through profit or loss – sovereigns and banks relates to investments in sovereigns.

27.5 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	**Note**	**More than one year**	**One to two years**	**Two to three years**	**Three to four years**	**Four to five years**	**Five to ten years**	**More than ten years**
2016								
Undiscounted assets								
Loans and advances to clients – retail personal	8	45 068 671	17 382 049	12 934 442	8 195 894	4 156 894	2 399 392	–
Other receivables	9	27 186	26 969	–	–	–	217	–
Derivative assets	10	263 048	221 923	24 022	17 103	–	–	–
Undiscounted assets		45 358 905	17 630 941	12 958 464	8 212 997	4 156 894	2 399 609	–
Adjustments for undiscounted assets		(16 529 971)	(7 641 247)	(4 799 089)	(2 535 648)	(1 068 667)	(485 320)	–
Discounted assets								
Loan impairment provision	8	(3 598 651)	(1 052 441)	(868 244)	(661 136)	(476 988)	(539 842)	–
Total discounted assets		25 230 283	8 937 253	7 291 131	5 016 213	2 611 239	1 374 447	–
Undiscounted liabilities								
Deposits and bonds	15	15 855 225	5 687 757	3 524 374	3 403 964	2 608 260	630 870	–
Trade and other payables	16	233 237	87 755	53 039	28 012	5 810	58 621	–
Provisions	17	107 905	68 963	38 942	–	–	–	–
Undiscounted liabilities		16 196 367	5 844 475	3 616 355	3 431 976	2 614 070	689 491	–
Adjustments for undiscounted liabilities to depositors		(3 079 270)	(1 140 493)	(782 520)	(560 530)	(476 477)	(119 250)	–
Total discounted liabilities		13 117 097	4 703 982	2 833 835	2 871 446	2 137 593	570 241	–
Net liquidity excess/(shortfall)		12 113 186	4 233 271	4 457 296	2 144 767	473 646	804 206	–
Cumulative liquidity excess/(shortfall)		12 605 241	4 725 326	9 182 622	11 327 389	11 801 035	12 605 241	12 605 241

27.5 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Note	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2015								
Undiscounted assets								
Loans and advances to clients – retail personal	8	44 766 238	15 975 151	11 938 417	8 075 238	4 477 127	4 300 305	–
Other receivables	9	5 944	5 720	–	–	–	224	–
Derivative assets	10	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	8	(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								
Loans and deposits at amortised cost	15	16 089 687	5 910 659	3 923 831	2 073 132	3 014 440	1 167 625	–
Trade and other payables	16	180 543	71 026	32 243	17 429	6 581	53 264	–
Provisions	17	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 Capital management

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

- address the expectations of 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 South African Reserve Bank (SARB) as codified in the Banks Act 1990 (as amended) and related regulations.

The bank conducts a Capitec Internal Capital Adequacy Assessment Process (CICAAP) on an ongoing basis, which drives the position on capital management. The CICAAP 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	2016	2015
Composition of qualifying regulatory capital		
Ordinary share capital	6 105 981	6 105 981
Accumulated profit	7 206 764	5 159 602
	13 312 745	11 265 583
Regulatory adjustments		
– Intangible assets in terms of IFRS	(242 648)	(238 876)
– Specified advances	(4 158)	–
– Unappropriated profit	(549 390)	(482 226)
Common Equity Tier 1 capital (CET1)	12 516 549	10 544 481
Issued preference share capital[6]	173 894	207 175
Phase out – non-loss absorbent[1]	(18 513)	(25 897)
Additional Tier 1 capital (AT1)	155 381	181 278
Tier 1 capital (T1)	12 671 930	10 725 759
Issued subordinated debt	2 891 000	2 891 000
Phase out – non-loss absorbent[1]	(1 156 400)	(867 300)
Total subordinated debt	1 734 600	2 023 700
Unidentified impairments	459 703	398 251
Tier 2 capital (T2)	2 194 303	2 421 951
Qualifying regulatory capital	14 866 233	13 147 710
CET1 %	29.8	29.1
AT1%	0.4	0.5
T1 %	30.2	29.6
T2 %	5.2	6.7
Total capital adequacy %[2]	35.4	36.3

27.6 Capital management (continued)

R'000	2016	2015
Composition of required regulatory capital		
On balance sheet	3 593 005	3 186 011
Credit risk	3 593 005	3 186 011
Operational risk	292 060	253 273
Other assets	204 444	180 093
Total regulatory capital requirement (3)	4 089 509	3 619 377
Composition of risk-weighted assets (4)		
On balance sheet	36 851 331	31 860 109
Credit risk	36 851 331	31 860 109
Operational risk	2 995 489	2 532 727
Other assets	2 096 864	1 800 930
Total risk-weighted assets	41 943 684	36 193 766
Total assets based on IFRS	62 942 458	53 912 516
Total risk-weighted assets – adjustments (5)	(20 998 774)	(17 718 750)
Total risk-weighted assets – regulatory	41 943 684	36 193 766

(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 9.75% (2015: 10%) of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.75% (2015: 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. At year-end, 32.85% (2015: 20.00%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

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

R'000	Note	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
2016						
Interest income	21	–	–	12 472 792	–	12 472 792
Interest expense	21	–	–	–	(2 883 666)	(2 883 666)
Loan fee income		–	–	1 545 477	–	1 545 477
Loan fee expense		–	–	(690 054)	–	(690 054)
Transaction fee income		–	–	–	4 326 103	4 326 103
Transaction fee expense		–	–	–	(1 305 890)	(1 305 890)
Net impairment on loans and advances to clients	22	–	–	(4 400 637)	–	(4 400 637)
Net movement in financial instruments held at fair value through profit or loss	23	–	(1 304)	–	–	(1 304)
2015						
Interest income	21	–	165 359	10 616 800	–	10 782 159
Interest expense	21	–	–	–	(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

27.8 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 3 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.

27.8 Fair value hierarchy and classification of financial assets and financial liabilities (continued)

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	Note	Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2016								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	14 161 138	–	14 161 138	14 161 138	(2)
Held-to-maturity investments	6	–	–	3 634 710	–	3 634 710	3 634 710	(2)
Term deposit investments	7	–	–	7 188 781	–	7 188 781	7 188 781	(2)
Loans and advances to clients	8	–	–	35 755 444	–	35 755 444	38 164 830	Level 3
Other receivables	9	–	–	115 481	–	115 481	115 481	(2)
Derivative assets (1)	10	–	225 403	–	–	225 403	225 403	Level 2
Group loans receivable	11	–	–	109 178	–	109 178	109 178	(2)
Financial liabilities								
Deposits and bonds	15	–	–	–	47 940 148	47 940 148	48 088 701	Level 2
– Listed bonds		–	–	–	6 280 481	6 280 481	6 327 832	
– Other fixed-term institutional deposits		–	–	–	3 872 813	3 872 813	3 852 567	
– Retail deposits		–	–	–	37 786 854	37 786 854	37 908 302	
Trade and other payables(2)	16	–		–	1 327 283	1 327 283	1 327 283	(2)
Provisions	17	–	–	–	107 905	107 905	107 905	(2)
Group loans payable	18	–	–	–	16 336	16 336	16 336	(2)
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	7	–	–	5 778 474	–	5 778 474	5 778 474	(2)
Loans and advances to clients	8	–	–	32 482 032	–	32 482 032	36 938 920	Level 3
Other receivables	9	–	–	110 149	–	110 149	110 149	(2)
Derivative assets (1)	10	–	35 847	–	–	35 847	35 847	Level 2
Group loans receivable	11	–	–	29 993	–	29 993	29 993	
Financial liabilities								
Deposits and bonds	15	–	–	–	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)	16	–	–	–	1 151 878	1 151 878	1 151 878	(2)
Provisions	17	–	–	–	64 268	64 268	64 268	(2)
Group loans payable	18	–	–	–	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.

27.9 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 or 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 bonds. 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.

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 deposit 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 publically 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	2016	2015

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.	**127 340**	103 137

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

29. Related-party transactions

HOLDING COMPANY		
Dividends		
Ordinary dividend paid	**1 115 810**	814 005
Preference dividend paid	**16 064**	17 510
Capitec Bank Holdings Limited (holding company)	**1 131 874**	831 515
Management fees paid	**3 263**	2 570
Loans due to:		
Capitec Bank Holdings Limited (holding company)	**16 341**	12 142
Capitec Bank Holdings Share Trust	**–**	1 005
PARTIES WITH SIGNIFICANT INFLUENCE		
Brokers' fees – PSG group and subsidiaries(1)	**236**	70
Loans due from:		
Capitec Bank Holdings Share Trust	**(4 157)**	–
Capitec Properties Proprietary Limited (fellow subsidiary)	**(105 021)**	(29 993)
KEY MANAGEMENT		
Key management employees' remuneration		
Salaries and other short-term benefits	**66 193**	47 425
Post-employment benefits	**2 504**	2 426
Share-based payments	**161 150**	251 349
Key management compensation(2)	**229 847**	301 200

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

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

R'000	2016	2015

29. Related-party transactions (continued)

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
Loan repayments during the year	–	(157)
Loans outstanding at the end of the year	**–**	–

Retail deposits from directors and other key management employees(3)		
Deposits at the beginning of the year	**15 667**	4 982
Interest earned during the year	**941**	697
(Withdrawals)/deposits made during the year	**(9 009)**	9 988
Deposits at the end of the year	**7 599**	15 667

Directors' interest in contracts

All directors of Capitec Bank 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.

(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

2016

				Opening balance	(Options exercised) /Options granted			Closing balance
Directors	Maturity date	Issue date	Strike price R	Number of share options	Number of share options	Market price R	Exercise date	Number of share options
AP du Plessis	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	494.53	8 Feb 16	–
(direct beneficial)	8 Feb 16	12 Apr 11	160.09	3 750	(3 750)	494.53	8 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	494.53	8 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	494.53	8 Feb 16	–
	8 Feb 16	15 Apr 14	196.43	5 936	(5 936)	494.53	8 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	196.43	5 936	–	–	–	5 936
	1 Apr 17	1 Apr 15	371.88	–	17 364	–	–	17 364
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	196.43	5 937	–	–	–	5 937
	1 Apr 18	1 Apr 15	371.88	–	17 364	–	–	17 364
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	196.43	5 937	–	–	–	5 937
	1 Apr 19	1 Apr 15	371.88	–	17 363	–	–	17 363
	1 Apr 20	1 Apr 15	371.88	–	17 363	–	–	17 363
				66 871	47 268			114 139

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – options (continued)

2016

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	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	494.53	8 Feb 16	–
(direct beneficial)	8 Feb 16	12 Apr 11	160.09	2 500	(2 500)	494.53	8 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	494.53	8 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	494.53	8 Feb 16	–
	8 Feb 16	15 Apr 14	196.43	4 582	(4 582)	494.53	8 Feb 16	–
	1 Nov 16	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	196.43	4 582	–	–	–	4 582
	1 Apr 17	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 17	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	196.43	4 583	–	–	–	4 583
	1 Apr 18	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 18	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	196.43	4 583	–	–	–	4 583
	1 Apr 19	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 20	1 Apr 15	371.88	–	22 871	–	–	22 871
				86 455	71 905			158 360
R Stassen	8 Feb 16	14 Apr 10	97.30	6 250	(6 250)	494.53	8 Feb 16	–
(direct beneficial)	8 Feb 16	12 Apr 11	160.09	7 500	(7 500)	494.53	8 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	12 500	(12 500)	494.53	8 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
	1 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	1 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				58 750	(26 250)			32 500
Total				212 076	92 923			304 999

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – share appreciation rights

2016

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SAR	(SAR exercised)/SAR granted Number of SAR	Market price R	Exercise date	Closing balance Number of SAR
AP du Plessis	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	443.00	9 Mar 15	–
(direct beneficial)	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	443.00	9 Mar 15	–
	26 Feb 15	12 Apr 11	160.09	3 750	(3 750)	443.00	9 Mar 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	443.00	9 Mar 15	–
	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	503.00	9 Feb 16	–
	8 Feb 16	12 Apr 11	160.09	3 750	(3 750)	503.00	9 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	503.00	9 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	503.00	9 Feb 16	–
	8 Feb 16	15 Apr 14	0.01	2 016	(2 016)	503.00	9 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	0.01	2 016	–	–	–	2 016
	1 Apr 17	1 Apr 15	0.01	–	5 904	–	–	5 904
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	0.01	2 016	–	–	–	2 016
	1 Apr 18	1 Apr 15	0.01	–	5 904	–	–	5 904
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	0.01	2 017	–	–	–	2 017
	1 Apr 19	1 Apr 15	0.01	–	5 903	–	–	5 903
	1 Apr 20	1 Apr 15	0.01	–	5 903	–	–	5 903
				81 815	(25 277)			56 538

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – share appreciation rights (continued)

2016

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SAR	(SAR exercised)/SAR granted Number of SAR	Market price R	Exercise date	Closing balance Number of SAR
(direct beneficial)	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	443.00	9 Mar 15	–
	26 Feb 15	12 Apr 11	160.09	2 500	(2 500)	443.00	9 Mar 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	443.00	9 Mar 15	–
	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	502.85	17 Feb 16	–
	8 Feb 16	12 Apr 11	160.09	2 500	(2 500)	502.85	17 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	502.85	17 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	502.85	17 Feb 16	–
	8 Feb 16	15 Apr 14	0.01	1 556	(1 556)	502.85	17 Feb 16	–
	1 Nov 16	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	0.01	1 556	–	–	–	1 556
	1 Apr 17	1 Apr 15	0.01	–	7 777	–	–	7 777
	1 Nov 17	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	0.01	1 556	–	–	–	1 556
	1 Apr 18	1 Apr 15	0.01	–	7 777	–	–	7 777
	1 Nov 18	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	0.01	1 557	–	–	–	1 557
	1 Apr 19	1 Apr 15	0.01	–	7 776	–	–	7 776
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 20	1 Apr 15	0.01	–	7 776	–	–	7 776
				103 725	(14 825)			88 900

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – share appreciation rights (continued)

2016

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SAR	(SAR exercised)/SAR granted Number of SAR	Market price R	Exercise date	Closing balance Number of SAR
(direct beneficial)	26 Feb 15	14 Apr 10	97.30	6 250	(6 250)	472.00	17 Mar 15	–
	26 Feb 15	12 Apr 11	160.09	7 500	(7 500)	433.27	4 Mar 15	–
	26 Feb 15	11 Apr 12	198.52	12 500	(12 500)	433.27	4 Mar 15	–
	8 Feb 16	14 Apr 10	97.30	6 250	(6 250)	503.00	9 Feb 16	–
	8 Feb 16	12 Apr 11	160.09	7 500	(7 500)	503.00	9 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	12 500	(12 500)	503.00	9 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
	1 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	1 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				147 500	(115 000)			32 500
Total				333 040	(155 102)			177 938

29. Related-party transactions (*continued*)

Directors' remuneration

The total share option expense relating to directors amounted to R31 689 335 (2015: R65 261 352) and share appreciation rights expense amounted to R39 518 151 (2015: R64 084 065).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2016						
Executive[1]						
AP du Plessis	6 692	229	3 646	–	10 567	6 658
GM Fourie	8 018	468	4 427	–	12 913	8 770
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 200	1 200	–
RJ Huntley	–	–	–	306	306	–
JD McKenzie	–	–	–	522	522	–
NS Mjoli-Mncube	–	–	–	306	306	–
PJ Mouton	–	–	–	462	462	–
CA Otto	–	–	–	574	574	–
G Pretorius	–	–	–	306	306	–
R Stassen	–	–	–	388	388	–
JP Verster[2]	–	–	–	491	491	–
JP van der Merwe[3]	–	–	–	29	29	–
	14 710	697	8 073	4 584	28 064	15 428
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	–	–	–	283	283	–
JP van der Merwe	–	–	–	531	531	–
	11 928	261	4 095	4 304	20 588	3 638

(1) The executive directors and the executive management committee are the prescribed officers of the company.
(2) Appointed 23 March 2015.
(3) Resigned 20 March 2015.

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
2016					
JC Carstens	**3 303**	**50**	**1 823**	**5 176**	**2 697**
W De Bruyn	**4 397**	**223**	**2 604**	**7 224**	**–**
CG Fischer	**3 585**	**45**	**2 188**	**5 818**	**3 069**
HAJ Lourens	**3 792**	**216**	**2 083**	**6 091**	**3 144**
SN Mashiya [(2)]	**1 167**	**14**	**608**	**1 789**	**999**
NST Motjuwadi	**2 575**	**41**	**1 380**	**3 996**	**1 145**
A Olivier	**3 783**	**153**	**2 344**	**6 280**	**3 142**
C Oosthuizen [(3)]	**953**	**10**	**–**	**963**	**–**
CG van Schalkwyk [(4)]	**1 862**	**25**	**–**	**1 887**	**–**
L Venter	**3 871**	**40**	**2 083**	**5 994**	**2 945**
	29 288	**817**	**15 113**	**45 218**	**17 141**
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[(1)]	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

The total share option expense relating to prescribed officers above amounted to R44 056 786 (2015: R61 911 778) and share appreciation rights expense amounted to R40 342 693 (2015: R60 091 696). This expense includes the movement on all tranches.

Financial assistance amounting to R2 599 062 (2015: R429 483) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to Rnil (2015: Rnil).

(1) Appointed as a prescribed officer on 1 January 2014. The remuneration includes remuneration from January 2014.
(2) Appointed 1 November 2015.
(3) Retired on 31 May 2015.
(4) Retired on 30 November 2015.

R'000	2016	2015

30. Cash flow from operations

Net profit before tax	**4 403 072**	3 411 138
Adjusted for non-cash items		
Fair value adjustments on financial assets	**1 304**	(21 271)
Loan impairment charge	**1 274 235**	220 194
Depreciation	**305 099**	282 043
Amortisation	**97 531**	85 904
Loss/(profit) on disposal of assets	**11 926**	(978)
Movements in assets and liabilities		
Loans and advances to clients	**(4 547 647)**	(2 651 473)
Other receivables	**(6 442)**	15 240
Derivatives	**(111 682)**	64 429
Deposits and bonds	**6 758 843**	5 732 627
Trade and other payables	**159 395**	356 298
Movements in provisions	**43 637**	52 817
Share-based employee costs – options	**28 424**	(57 804)
Share-based employee costs – share appreciation rights	**(33 556)**	3 135
Cash flow from operations	**8 384 139**	7 492 299

31. Income taxes paid

Balance at the beginning of the year	**(37 635)**	(22 519)
Income statement charge	**1 224 036**	953 688
Movement in deferred tax	**58 661**	67 876
Balance at the end of the year	**52 702**	37 635
Income tax paid	**1 297 764**	1 036 680

32. Dividends paid

Balance at the beginning of the year	**8 773**	10 176
Dividend declared during the year:		
Ordinary dividend	**1 115 809**	814 004
Preference dividend	**16 064**	17 510
Balance at the end of the year	**(7 787)**	(8 773)
Dividends paid	**1 132 859**	832 917

R'000	2016	2015

33. Commitments and contingent liabilities

Property operating lease commitments[1]		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	353 711	307 476
From one to five years	1 072 435	835 503
After five years	278 522	214 233
Total future cash flows	1 704 668	1 357 212
Straight-lining accrued	(89 184)	(70 473)
Future expenses	1 615 484	1 286 739
Sub-lease payments		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	4 805	–

(1) The bank leases various branches under non-cancellable operating leases expiring within one to eleven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess space is sub-let to third parties also under non-cancellable operating leases.

Other operating lease commitments		
Within one year	1 734	1 107
From one to five years	362	365
	2 096	1 472
Capital commitments – approved by the board		
Contracted for		
Property and equipment	346 647	54 400
Intangible assets	24 126	9 442
Not contracted for		
Property and equipment	701 586	496 697
Intangible assets	467 234	132 395
	1 539 593	692 934

Contingent liabilities

Alleged contravention of the NCA

Since 2013, we have reported that the National Credit Regulator (NCR) alleged that Capitec Bank Limited had contravened the National Credit Act. The National Credit Tribunal dismissed the NCR's application and the NCR lodged an appeal. The appeal was heard in the Gauteng High Court before a bench of three judges on 24 February 2016. On 23 March 2016 the court delivered its judgement and dismissed the NCR's appeal.

During February 2016 we became aware of another referral made by the NCR to the National Consumer Tribunal, which referral is also being contested by Capitec Bank.

It is, and remains, impracticable to estimate the financial effect of any possible outcome of either of the referrals. Capitec is, and remains, of the view that the matters will be satisfactorily resolved through due process.

Participation in consortium underwriting the recapitalisation 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. 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 R2.5 billion of the recapitalisation. The participation level of each of the banks is based on a formula agreed on between the banks. The recapitalisation occurred during March 2016.

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) and section 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the Annual General Meeting on 30 May 2014 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or inter-related company to the company, on the terms and conditions and for the amounts 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% (2015: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2015: 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 options, with durations ranging from two 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 prior to the date of allocation.

Number	2016	2015
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	**710 429**	1 502 785
Options granted	**371 796**	231 536
Options cancelled and/or lapsed	**(5 939)**	(625)
Options exercised	**(207 799)**	(1 023 267)
Balance at the end of the year	**868 487**	710 429
Share appreciation rights issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	**756 802**	1 502 785
Share appreciation rights granted	**126 340**	78 597
Share appreciation rights cancelled and/or lapsed	**(5 939)**	(625)
Share appreciation rights exercised	**(365 265)**	(823 955)
Balance at the end of the year	**511 938**	756 802

35. Share incentive scheme (*continued*)

Analysis of outstanding share options by year of maturity	2016 Weighted average strike price R	2016 Number	2015 Weighted average strike price R	2015 Number
Financial year				
2014/2015	–	–	185.37	4 837
2015/2016	171.59	9 290	60.35	19 779
2016/2017	233.34	39 934	181.02	234 908
2017/2018	262.34	281 555	200.38	190 163
2018/2019	276.32	247 676	209.21	155 976
2019/2020	296.43	197 087	214.70	104 766
2020/2021	387.92	92 945	–	–
	285.20	868 487	194.03	710 429

Number	2016	2015
Shares purchased/issued during the year	217 089	1 023 267
Shares utilised for settlement of options	(207 799)	(1 023 267)
Shares available for settlement of options	9 290	–
Settled in shares	(207 799)	(1 023 267)
Options exercised	(207 799)	(1 023 267)

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 [3]	Risk-free rate %	Number of options out-standing	Estimated value R'000	Expected vesting pro-portion[2] %	Fair value R'000	Portion of term expired %	Liability at year end R'000
2010/2011	97.3	2015/2016	7.0	1 875	706	100.0	706	100.0	–
	117.79	2016/2017	7.3	3 184	1 136	100.0	1 136	93.0	1 056
2011/2012	160.09	2017/2018	7.4	33 880	10 783	100.0	10 783	81.8	8 820
		2015/2016	7.0	1 563	491	100.0	491	100.0	–
2012/2013	182.40	2017/2018	7.4	1 713	509	100.0	509	80.0	407
		2018/2019	7.9	1 714	522	100.0	522	66.6	348
	198.52	2017/2018	7.4	48 877	13 831	100.0	13 831	78.1	10 807
		2018/2019	7.9	48 877	14 263	100.0	14 263	65.1	9 280
		2015/2016	7.0	1 250	344	100.0	344	100.0	–
2013/2014	201.40	2017/2018	7.4	37 500	10 513	100.0	10 513	72.7	7 639
		2018/2019	7.9	37 500	10 856	100.0	10 856	58.1	6 303
		2019/2020	8.1	37 500	11 175	100.0	11 175	48.4	5 403
		2015/2016	7.0	1 875	511	100.0	511	100.0	–
	209.83	2016/2017	7.3	8 750	2 356	100.0	2 356	77.6	1 827
		2017/2018	7.6	8 750	2 435	100.0	2 435	58.2	1 417
		2018/2019	8.0	8 750	2 524	100.0	2 524	46.5	1 175
		2019/2020	8.2	8 750	2 601	100.0	2 601	38.8	1 009
2014/2015	196.43	2017/2018	7.4	29 880	8 512	100.0	8 512	63.3	5 389
		2018/2019	7.9	29 885	8 771	100.0	8 771	47.3	4 152
		2019/2020	8.1	29 891	9 013	100.0	9 013	37.8	3 407
		2015/2016	7.0	2 727	757	100.0	757	100.0	–
	253.82	2016/2017	7.3	28 000	6 376	100.0	6 376	66.3	4 225
		2017/2018	7.6	28 000	6 783	100.0	6 783	44.1	2 995
		2018/2019	8.0	28 000	7 202	100.0	7 202	33.1	2 384
		2019/2020	8.2	28 000	7 553	100.0	7 553	26.5	2 000
2015/2016	371.88	2017/2018	7.4	84 080	11 873	100.0	11 873	45.7	5 425
		2018/2019	7.9	84 075	14 401	100.0	14 401	30.5	4 389
		2019/2020	8.1	84 071	16 374	100.0	16 374	22.9	3 743
		2020/2021	8.3	84 070	18 041	100.0	18 041	18.3	3 298
	539.88	2017/2018	7.6	8 875	726	100.0	726	16.3	118
		2018/2019	8.0	8 875	1 022	100.0	1 022	10.9	111
		2019/2020	8.2	8 875	1 261	100.0	1 261	8.2	103
		2020/2021	8.4	8 875	1 468	100.0	1 468	6.5	96
Grand Total				868 487	205 689	100.0	205 689	47.3	97 326

(1) All rights were valued using the Black-Scholes model and the following variables:

- *Dividend yield* 1.5%
- *Volatility[4]* 37.2%
- *Ex dividend share price* 467.08

(2) Executive staff turnover of 0% p.a. (2015: 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 2016 and April 2016, to be exercised in February 2016.
(4) The expected price volatility is based on the historic 12 month volatility, adjusted for any expected changes to future volatility due to publicly available information.

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 appreciation rights 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 [3] R	Year maturing [4]	Risk-fee rate %	Number of share apprecia-tion rights outstand-ing	Fair value R'000	Portion of term expired %	Expected vesting pro-portion[2] %	Liability at year end R'000
2010/2011	97.30	2015/2016	7.0	8 750	3 296	100.0	100.0	3 296
	117.79	2016/2017	7.3	3 184	1 136	93.0	100.0	1 056
2011/2012	160.09	2017/2018	7.4	33 880	10 783	81.8	100.0	8 820
		2015/2016	7.0	6 063	1 903	100.0	100.0	1 903
2012/2013	182.40	2017/2018	7.4	1 713	509	80.0	100.0	407
		2018/2019	7.9	1 714	522	66.6	100.0	348
	198.52	2017/2018	7.4	48 877	13 831	78.1	100.0	10 807
		2018/2019	7.9	48 877	14 263	65.1	100.0	9 280
		2015/2016	7.0	6 875	1 894	100.0	100.0	1 894
2013/2014	201.40	2017/2018	7.4	37 500	10 513	72.7	100.0	7 639
		2018/2019	7.9	37 500	10 856	58.1	100.0	6 304
		2019/2020	8.1	37 500	11 175	48.4	100.0	5 403
		2015/2016	7.0	6 250	1 704	100.0	100.0	1 704
	209.83	2016/2017	7.3	8 750	2 356	77.6	100.0	1 827
		2017/2018	7.6	8 750	2 435	58.2	100.0	1 417
		2018/2019	8.0	8 750	2 524	46.5	100.0	1 175
		2019/2020	8.2	8 750	2 601	38.8	100.0	1 009
2014/2015	0.01	2016/2017	7.3	9 500	4 458	66.3	100.0	2 954
		2017/2018	7.4	10 147	4 732	63.3	100.0	2 996
		2017/2018	7.6	9 500	4 392	44.1	100.0	1 939
		2018/2019	7.9	10 149	4 663	47.3	100.0	2 207
		2018/2019	8.0	9 500	4 327	33.1	100.0	1 432
		2019/2020	8.1	10 154	4 596	37.8	100.0	1 737
		2019/2020	8.2	9 500	4 263	26.5	100.0	1 129
		2015/2016	7.0	3 465	1 642	100.0	100.0	1 642
2015/2016	0.01	2017/2018	7.4	28 591	13 334	45.7	100.0	6 092
		2017/2018	7.6	3 000	1 387	16.3	100.0	226
		2018/2019	7.9	28 587	13 134	30.5	100.0	4 003
		2018/2019	8.0	3 000	1 366	10.9	100.0	148
		2019/2020	8.1	28 582	12 937	22.9	100.0	2 958
		2019/2020	8.2	3 000	1 346	8.2	100.0	110
		2020/2021	8.3	28 580	12 744	18.3	100.0	2 330
		2020/2021	8.4	3 000	1 327	6.5	100.0	86
				511 938	182 949	52.6	100.0	96 278
Note								16

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

- *Dividend yield* 1.5%
- *Volatility*[5] 37.2%
- *Ex dividend share price* 467.08

(2) *Executive staff turnover of 0% p.a. (2015: 7%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 on an annual basis.*

(3) *As from the 2015 financial year:*

SARs are granted at R0.01 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 options, maturing in March 2016 and April 2016, to be exercised in February 2016.*

(5) *The expected price volatility is based on the historic 12 month volatility, adjusted for any expected changes to future volatility due to publicly available information.*

38. Derivative financial instruments: economic hedges

R'000	Notional amount	Fair values Assets	Liabilities
2016			
Forward foreign exchange contracts			
Notional amounts in ZAR	–	–	–
Notional amounts in USD	–	–	–
2015			
Forward foreign exchange contracts			
Notional amounts in ZAR	20 976	(1 513)	–
Notional amounts in USD	1 942	–	–

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 Rnil (2015: R21 million).

39. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values Assets	Liabilities
2016			
Interest rate swaps	**4 026 349**	**(78 090)**	**–**
Cross-currency interest rate swaps	**343 500**	**(147 313)**	**–**
Net	**4 369 849**	**(225 403)**	**–**
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

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
2016					
Discounted swap cash flows	**1 035**	**(5 489)**	**(17 659)**	**(55 977)**	**(78 090)**
Discounted cross-currency interest rate swap cash flows	**–**	**4 344**	**11 555**	**(163 212)**	**(147 313)**
Net	**1 035**	**(1 145)**	**(6 104)**	**(219 189)**	**(225 403)**
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)

Gains and losses recognised in comprehensive income (note 20) on 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 29 February 2016, the fixed interest rates were between 5.21% and 12.17% (2015: 5.21% and 7.92%) and the floating rates were based on forecast three-month JIBAR and LIBOR rates at 29 February 2016.

The fair value adjustment transferred to the income statement amounted to a cost of R111.2 million (2015: R36.6 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 2016 and 2015. There were no transactions for which cash flow hedge accounting had to be discontinued in 2016 and 2015 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 29 February 2016 Holder	Instrument held	Amount held R'000	Holding % [1]
Standard Chartered Bank (London) Limited	Wholesale	631 580	44.7%
Nedbank Limited	Wholesale	217 362	15.4%
Sanlam Developing Markets Limited	Wholesale	147 619	10.5%
Shisa Investments Proprietary Limited	Wholesale	106 225	7.5%
Sanlam Investment Management, a division of Sanlam Life Insurance Limited	Wholesale	100 127	7.1%
Channel Life Limited	Wholesale	78 099	5.5%
Sanlam Credit Conduit Proprietary Limited	Wholesale	75 095	5.3%
Stanlib Income Fund	Subordinated unlisted bond	391 604	38.8%
Liberty Group Limited	Subordinated unlisted bond	81 372	8.1%
IAL Credit Opps 2 UPF Z	Subordinated unlisted bond	72 510	7.2%
IAL Credit Opps 3 Upf 1	Subordinated unlisted bond	69 682	6.9%
Investec Credit Opportunities 5 Proprietary Limited	Subordinated unlisted bond	66 562	6.6%
Old Mutual Specialised Finance Offshore Fund	Subordinated listed bond	335 591	17.4%
Investec Corporate Bond Fund	Subordinated listed bond	309 376	16.0%
Nedgroup Investments Flexible Income Fund	Subordinated listed bond	158 380	8.2%
Sanlam Life Insurance Limited	Listed senior bond	765 368	17.6%
Old Mutual Life Assurance Company (South Africa) Limited	Listed senior bond	586 792	13.5%
Nedgroup Investments Flexible Income Fund	Listed senior bond	247 283	5.7%
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	213 369	16.5%
Old Mutual Life Assurance Company (South Africa) Limited	Other unlisted negotiable instruments	110 426	8.5%
Sanlam Investment Management Active Income Fund	Other unlisted negotiable instruments	80 445	6.2%
PSG Balanced Fund	Other unlisted negotiable instruments	75 256	5.8%
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	75 095	5.8%

(1) Percentage holding is of the respective class of instrument.

41. Post balance sheet events

The directors are not aware of any other event which is material to the financial position of the company that has occurred between the reporting date of 29 February 2016 and the date of approval of these financial statements.

Glossary

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
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
IAR	Integrated annual report
ICAAP	Internal capital adequacy assessment process

Acronym	Description
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Standards Interpretations Committee
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 (appointed 23 March 2015)

Secretary
YM Mouton (appointed 1 December 2015)

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