Annual Report 2017

CAPITEC
BANK
LIMITED

Governance and Risk Management

Know how to use credit responsibly
Share that knowledge with others

Integrated risk framework

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

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

* The primary objectives of the framework are to:

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

Management Operating System

* The management operating systems (MOS) is an integrated review system used to manage strategy, operations and risk. The MOS ensures key performance areas and key results indicators align to the bank's objectives, business plans and budgets. Identified risks are measured against key risk indicators.

The MOS assists the bank's leaders, from branch staff to board members, in directing performance to ultimately deliver on business objectives.

Governance

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

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

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

Maintaining flat reporting lines is a key objective in designing the governance structure.

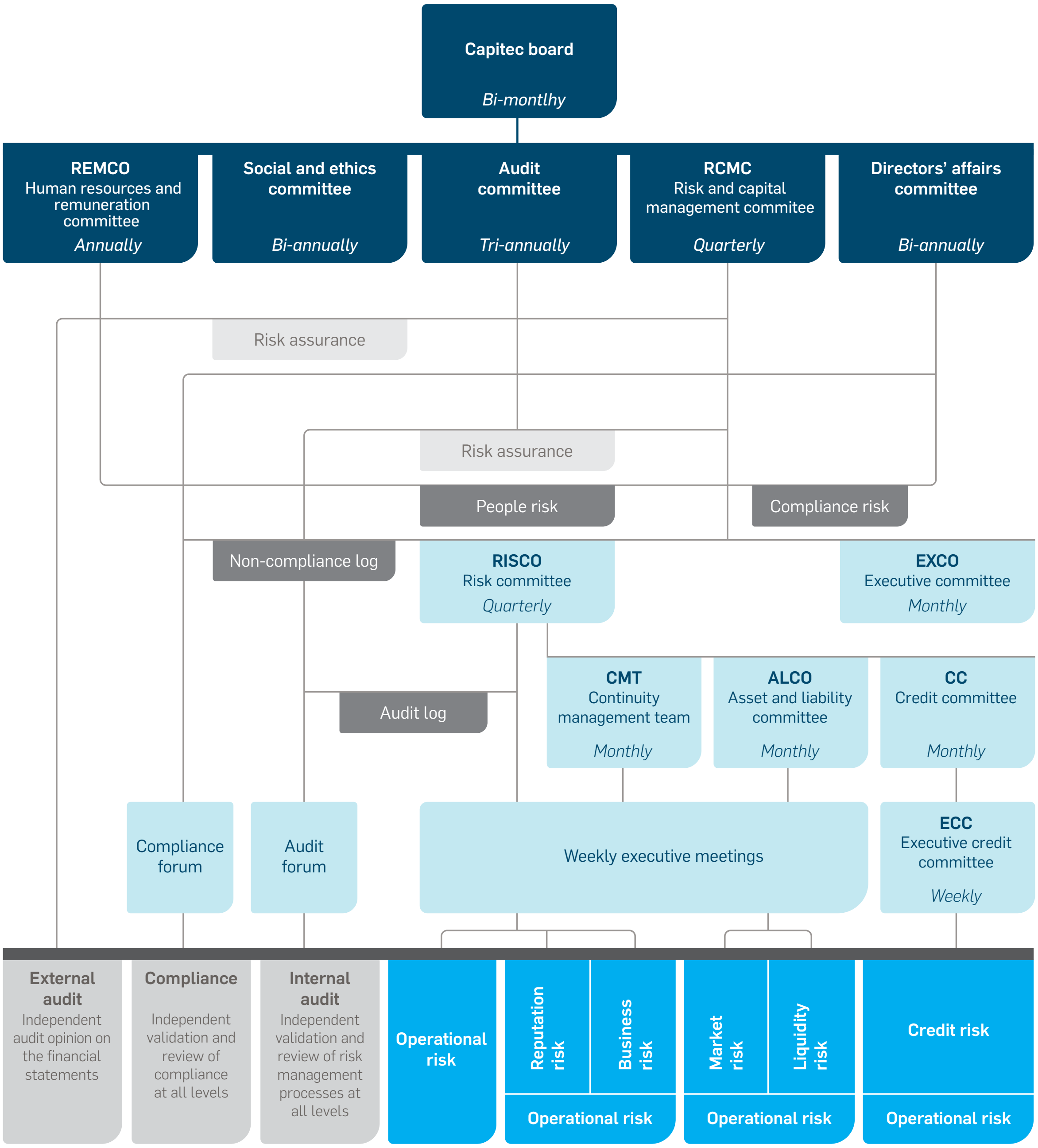
Governance structure

* The IRM governance structure consists of a number of committees with varying areas of responsibility as detailed in the following diagram ensuring that the risk universe is covered.

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

The board of directors

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



* *Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

Composition

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

The composition of the board ensures that there is a balance of power and authority so that no one individual has unfettered decision-making powers. The roles of chairman and CEO are separated and the chairman is a non-executive director. A lead independent director has been appointed.

Assessment of independence

The independence of independent non-executive directors and factors that may impair their independence is evaluated annually. The board is satisfied that the independence of these non-executive directors remains unaffected.

Appointment process

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

Diversity

The board is constituted so as to facilitate an optimally diversified composition without compromising quality and with the aim of complementing and expanding the insight, skills, knowledge and experience of the board as a whole. The board policy on diversity aims to promote inclusivity and equity at board level, subject to appropriate balance of required skills. The board gender policy targets at least 10% female directors. The board endeavours to ensure when sourcing new directors, that prospective candidates comprise both men and women.

Development

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

Performance assessment

The board is assessed annually via an internally conducted process that deals with individual directors as well as the board and its various committees as entities. The assessment includes an evaluation of whether the diversity of the board, i.e. its composition of academic qualifications, technical expertise, relevant industry knowledge, experience, age, race and gender promotes its effectiveness.

The board was comfortable with the results of the assessment for the 2017 financial year and is satisfied that it continues to function well.

Meetings and quorum

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

Committees

Apart from the directors' affairs committee that is required in terms of the Banks Act to comprise all non-executive directors, the composition of all committees is reviewed annually. The following committees, comprising directors, executives and senior management, are in place to deal with specific risks facing the organisation in a structured manner and in accordance with board-approved charters.

Board committee

Committee	Purpose	Composition	Quorum	Frequency and reporting
Audit committee	Responsible for financial disclosure and controls affecting this disclosure Custodians of corporate reporting, including the Annual Report – oversees the extent, format, frequency, content, quality, reliability, completeness and integrity of the annual report Annually expresses opinion on the expertise, resources and experience of the CFO as well as the internal audit environment Considers the continued independence of the current external auditor Recommends the appointment of external auditors, determines their fees and oversees the results of the external audit process Sets principles for the use of the external auditors for non-audit services	**Independent non-executive directors** JP Verster (chairman) JD McKenzie NS Mjoli-Mncube **Management attendees** AP du Plessis (CFO) GM Fourie (CEO) NS Mashiya (executive: risk management) J-HC de Beer (head: compliance) JJ Gourrah (head: internal audit) **By invitation** All directors	At least 50%, but not less than two members	Meets three times a year
Directors' affairs committee	Evaluation of board effectiveness Senior management and board succession planning Corporate governance	All non-executive directors R Stassen (chairman)	At least 50% of members	Meets twice a year
Executive committee (EXCO)	Operational decision-making Implementation of board-approved strategic decisions Ongoing approvals of administrative nature	GM Fourie AP du Plessis NS Mashiya W de Bruyn (executive: information technology) F Viviers (executive: marketing and communication) HAJ Lourens (executive: operations) JE Carstens (executive: credit) NST Motjuwadi (executive: human resources) A Olivier (executive: business development) L Venter (executive: business support centre) Two annually elected development members	At least three of the following: CEO, CFO, exec: risk management and exec: operations (quorum members) or replacement members as appointed by the EXCO, subject to at least two being quorum members	Meets twice a week with an extended meeting once a month

Committee	Purpose	Composition	Quorum	Frequency and reporting
Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	RCMC (see below) **Management members** JE Carstens GM Fourie NS Mashiya	Majority of members	Meets as required
Risk and capital management committee (RCMC)	Assists the board in reviewing the risk management systems, processes and significant risks impacting the bank's capital and management thereof Ensures that all risk data reported, complies with BCBS 239, Risk Data Aggregation and Risk Reporting	**Independent non-executive directors** JD McKenzie (chairman) JP Verster CA Otto **Non-executive directors** PJ Mouton R Stassen **Executive directors** AP du Plessis **Management attendees** GM Fourie NS Mashiya JE Carstens J-HC de Beer A Keizer (risk officer) JJ Gourrah	At least 50%, but not less than two members	Meets quarterly
Human resources and remuneration committee (REMCO)	Determines directors' and senior executives' remuneration, levels of remuneration of all employees and adjustment thereof Additional remuneration such as bonuses, incentives and share option incentives	**Independent non-executive directors** CA Otto (chairman) JD McKenzie **Non-executive director** R Stassen **Management attendees** GM Fourie NST Motjuwadi	At least 50%, but not less than two members	Meets at least once a year
Social and ethics committee	Promotes the collective wellbeing of society Facilitates the sustainable growth of the Capitec group Considers matters relating to socio-economic development, equity and empowerment, good corporate citizenship and the environment	**Non-executive director*** PJ Mouton (chairman) **Executive director** NS Mashiya **Management attendees** A Keizer NST Motjuwadi	At least 50%, but not less than two members	Meets twice a year

** The directors' affairs committee is in the process of appointing a third member to the social and ethics committee.*

Attendance of meetings by board members

Committee	Board	Audit	REMCO	RCMC	Social and ethics
Number of meetings	6	3	1	4	2
R Stassen	6	3[(1)]	1	4	–
AP du Plessis	5	3[(1)]	–	3	–
GM Fourie	6	3[(1)]	1[(1)]	4[(1)]	–
NS Mashiya[(2)]	6	3[(1)]	–	4[(1)]	2
MS du P le Roux[(3)]	6	3[(1)]	1	–	–
RJ Huntley[(4)]	2	–	–	–	1
JD McKenzie[(5)]	6	3	1	4	–
NS Mjoli-Mncube	6	3	–	–	–
PJ Mouton[(6)]	6	3	–	4	2
CA Otto	6	3[(1)]	1	4	–
G Pretorius[(7)]	2	1[(1)]	–	–	–
JP Verster	6	3	–	4	–

(1) *Attendance by invitation.*

(2) *Mr Mashiya was appointed to the board on 1 June 2016.*

(3) *Mr du P le Roux retired from the REMCO on 15 February 2017, but attended as an invitee.*

(4) *Ms Huntley resigned from the board on 21 September 2016.*

(5) *Mr McKenzie was appointed to the REMCO on 15 February 2017.*

(6) *Mr Mouton resigned form the audit committee on 21 February 2017.*

(7) *Mr Pretorius retired from the board on 27 May 2016.*

Group boards

The Capitec Bank board is identical to that of Capitec. Messrs AP du Plessis and GM Fourie officiate as directors of the other group subsidiaries which are detailed in chapter 1 of the Capitec Bank Holdings Limited integrated annual report.

Company secretary

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

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

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

Conflict of interest and dealing in securities

Executive management and directors declare all interests that may relate to Capitec at monthly executive and board meetings respectively.

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

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

There have been no matters of conflict in the reporting period.

Independent assurance

Both the external auditors and the internal audit department observe the highest levels of business and professional ethics and independence. Management encourages regular co-ordination and consultation between the external and internal auditors to ensure an efficient and robust audit process.

External audit

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

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

The engagement partner responsible for the audit rotates every five years. During 2016, Ms C van den Heever replaced Mr DG Malan as audit partner as a result of the requirement for audit partners to rotate. The external auditor attends the annual general meeting of shareholders.

Internal audit

Capitec Bank has an independent internal audit department with direct access to the chairman of the board and audit committee, reporting functionally to the committee and administratively to the CEO.

Internal audit functions in accordance with a charter approved by the audit committee. The charter formally defines the purpose, authority and responsibility of internal audit activity and is consistent with the Institute of Internal Auditors' definition.

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

- Evaluation of the appropriateness of and adherence to company policies and procedures;
- Prevention of fraud, unethical behaviour and irregularities;
- Production of quality management information; and
- Sound business processes and associated controls.

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

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

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

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

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

Risk Management

Risk universe

* The board risk and capital management committee (RCMC) oversees risk management in the organisation. The committee has a board-approved charter in terms of which it assists the board in reviewing risk identification, evaluation and mitigation processes.

The risk universe is composed of interconnected groups of risks as illustrated in the accompanying table.

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

Risk ownership

Heads of business carry the primary responsibility for the risks in the organisation, in particular with respect to identifying and managing risk appropriately. Risk management conducts risk analyses where appropriate to assist.

Risk control

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

Risk Reporting

The reporting of risk information must always strive to comply to the principles of BCBS 239, Risk Data Aggregation and Risk Reporting.

The Capitec Risk Universe

The board Risk and Capital Management Committee is responsible for risk management in the organisation. The RCMC oversees this function through subcommittees.

CREDIT RISK

The risk of losses from borrowers not meeting their obligations.

Governance: Credit committee

Main material matter: Maintain retail credit book within risk appetite

Annual financial statements disclosure: Note 27.1

LIQUIDITY RISK

Risk of losses from not having cash to honour commitments on time.

Governance: Asset and liability committee

Main material matter: Contractual and behavioural mismatches resulting from unforseen cash flows

Annual financial statements disclosure: Note 27.5

MARKET RISK

Risk of losses from value changes of financial instruments.

Governance: Asset and liability committee

Main material matter: Changes in interest rates

Annual financial statements disclosure: Note 27.2 to 27.4

BUSINESS RISK

The risk of non-performance against strategic objectives, the consequences of inappropriate strategy or a decline in *business volumes*.

Governance: Risk committee

Main material matter: Changes in regulatory environment

OPERATIONAL RISK

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance: Risk committee

Main material matter: Application of the bank's policies

REPUTATION RISK

This is the current or prospective risk to earnings and capital arising from an adverse perception of the image of Capitec.

Governance: Risk committee

Main material matter: System downtime

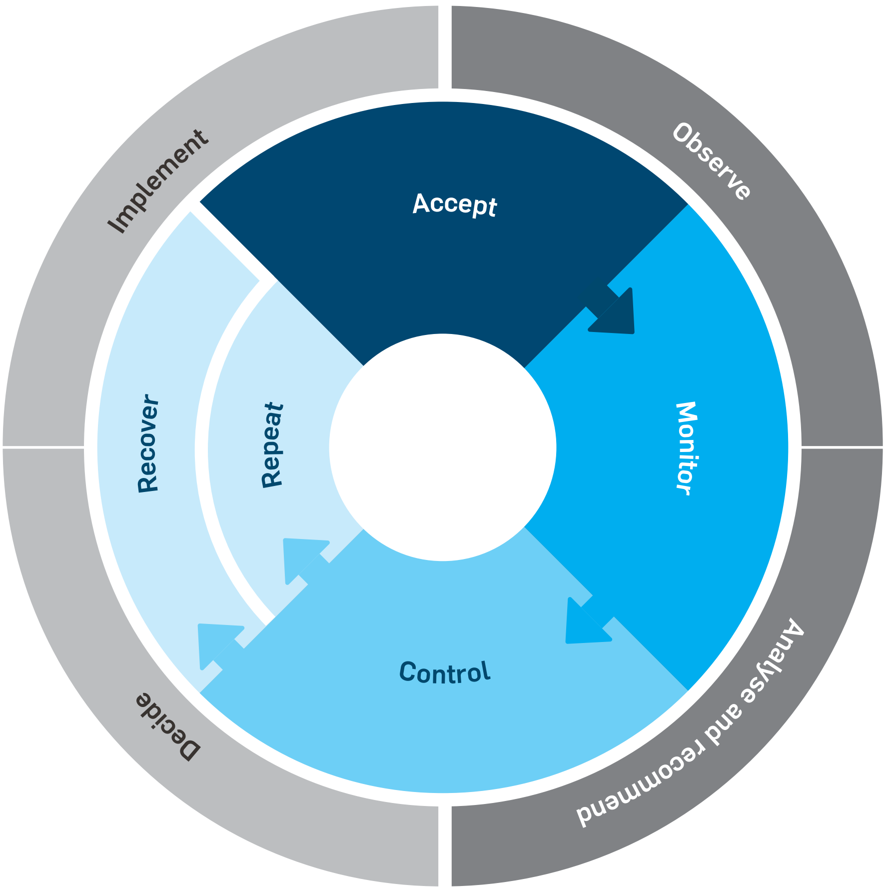
** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

Credit risk

* Credit risk is defined as the risk of loss arising from the failure of a client to fulfil their obligations. Capitec's credit risk primarily arises from unsecured retail credit risk.

The material matter relating to credit risk management is to maintain the retail credit book within the bank's credit risk appetite through customised acquisition, retention and rehabilitation strategies. Acquisition and retention strategies are built on the principles of clients' credit behaviour (willingness to pay), affordability and source of income. Rehabilitation strategies are need-driven to assist clients based on their unique circumstances.

Integrated credit risk management is applied across all stages of the credit life cycle.



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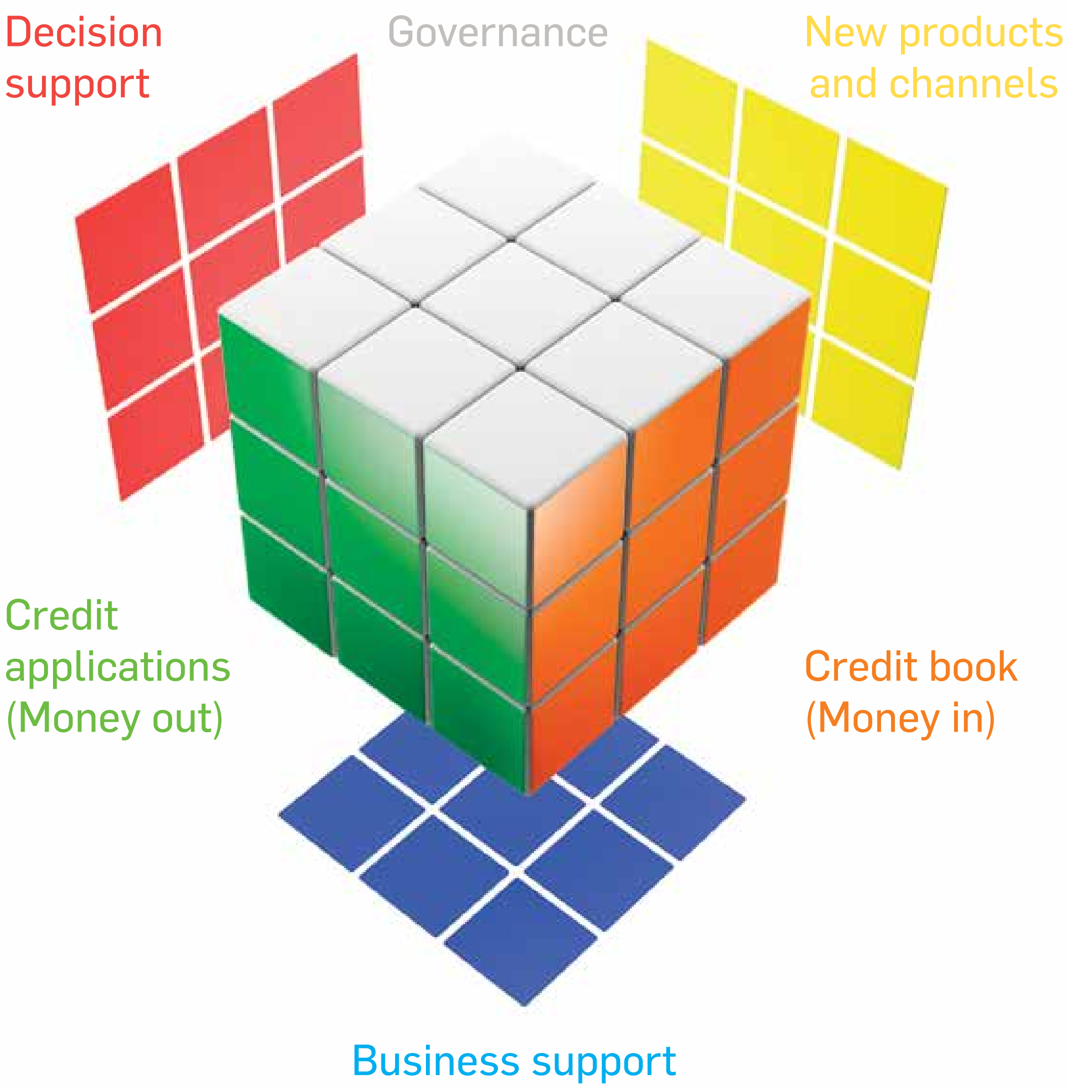
* Our credit risk management approach is illustrated in the form of a cube that represents the credit value chain in the credit life cycle.



* The credit management division is structured to manage the flow of money out and money in. Functions and disciplines are mirrored in credit applications and credit book regarding operational quality assurance, communication, training, overrides/exceptions, monitoring and reporting.

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

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Governance

Credit risk management is overseen by the credit committee, a subcommittee of the RCMC. Credit policies are determined by the credit committee. The credit committee meets at monthly intervals to report on and monitor credit risk, appetite and the economic landscape.

Theme based executive credit meetings are held at weekly intervals to report on operational credit monitoring and to workshop credit policies and related matters. Themes cover the credit life cycle i.e. applications and granting, book performance, collections and recoveries.

The credit committee evaluates key risk indicators and, if outside target or tolerance, are brought under the attention of the appropriate committees, where action plans are agreed.

The credit landscape is governed by regulators including the National Credit Regulator (NCR), the South African Reserve Bank (the SARB) and the relevant Ombuds.

Financial governance is exercised through the pricing model, the provisioning model, regulatory reporting and the Internal Capital Adequacy Assessment Process (ICAAP).

Decision support

Decision support is a specialist credit risk statistical analysis team that designs, develops, maintains and tracks credit models and scorecards across the credit life cycle that are aligned with business strategies and credit risk appetite.

Decision support furthermore has a dedicated team with the primary function of providing support during the development and implementation of policy and system changes. The function ensures that business requirements are met, the expected outcome is delivered and that data that is produced can be translated into monitoring and performance information.

The Decision support team is also structured to support money out and money in.

Models and scorecards	• Design, develop, maintain and track credit models and scorecards.
	• Monitor model stability. Some key indicators include Gini coefficient, Population Stability Index (PSI) and Kolmogorov Smirnoff Statistic (KS).
Descriptive and diagnostic analytics	• Use business intelligence and data mining to determine what happened and what caused it.
Strategic insight	• Provide strategic insight through implementation support, analytics, tracking, champion challengers, economic modelling etc.
Predictive and prescriptive analytics	• Optimisation and simulation is used to determine what could happen and what should be done.

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

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Credit applications

The credit applications area is responsible for the credit granting policy, which includes optimising, monitoring and adjusting the credit granting decision within our credit risk appetite.

Credit granting policies, training and administration	• Branch credit granting policy: maintenance, communication, training and monitoring.
	• Central quality assessments of credit granted.
Credit Bureau	• Monitoring of credit bureau data accuracy.
Central credit assessment	• Assessment of branch referrals.
	• Central credit policy interpretation support function to operations.
	• Post-implementation monitoring of credit granting changes.
	• Propose granting policy changes through evaluation of branch operations feedback.
Applications monitoring, insight reporting and change management	• Adjust the granting policy in response to data analyses of internal and external data, operational intelligence and understanding the external environment, economic developments and regulatory and structural changes in the credit industry.
	• Post-implementation data monitoring against expectation to determine whether policy changes are having the intended outcome.
	• Daily Management Operating System broadcasts:
	– Application volumes, accept rates, take-up rates and sales in relation to targets.
	– Segmentation views include client risk profiles, industry, product and income.
	• Weekly and monthly insight reporting with a focus on:
	– Acquisition and retention of clients and understanding the nature of attrition in the client base.
	• Coordination of the development and implementation of strategic system and policy enhancements.

Underlying credit applications is the centralised and automated credit policy which is based on the BASS fundamentals.

Behaviour	Willingness to pay.	The BASS fundamentals are contained in: • An automated rules engine that determines the credit offer. • The granting model which combines client behavioural information, external bureau data and information captured in the client interaction, referencing client documentation. The combination of the automated rules engine and standardised net take home pay principles ensures that the client experience is uniform in any branch or channel within Capitec and independent of personal preference, judgement or discrimination.
Affordability	Ability to pay as prescribed by the NCA.	
Source	When, who and how: Employment confirmation; nature of employment.	
Supporting documentation	Salary slips and bank statements.	

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

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Credit book

The credit book area focuses on collections and monitoring activities i.e. money in. This area is responsible for optimising collections and recoveries models and policies.

Collecting policies, training and administration	• Custodianship of collecting policies:
	– Maintenance, communication, training and monitoring.
	• Case study analyses of distressed clients – what went wrong and what could or must be done about it.
Employer-based collection strategy	• Collections accuracy and optimisation.
	• Knowledge management for proactive decision-making.
	• Employment and other risk events strategy.
Insight and change management	• Insight reporting and quantification which drives monitoring and influences the applicable granting, collections and recoveries strategies:
	– Granting strategy performance tracking against target.
	– Book profiling (segmentation).
	– Arrears and provision drivers and forecasting.
	– Performance monitoring of treated account tranches through payment success and vintage curves.
	– Outsourced (external debt collectors) and process (debt review and insurance) recoveries performance.
	• Coordination of the development and implementation of strategic system and policy enhancements.
Book, collections and recoveries monitoring	• Daily Management Operating System broadcasts:
	• Arrears, instalment collection success, centralised collections activities and treatments and balances rolling into a fully provided state.
	• Arrears treatment activity monitoring.
	• Influence and quantify collecting and recovery policy enhancements and strategies in collaboration with the centralised collections, recoveries, business intelligence, finance and decision support teams.

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Our approach to rescheduling

Rescheduling refers to changing the original terms of the loan contract, as formally agreed by both the client and Capitec.

Rescheduling is used as a rehabilitation mechanism for arrears clients who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist non-arrears clients who contact Capitec.

Rescheduling is customised to address clients' circumstances. It is applied for administrative reasons (e.g. pay frequency or employer changes) and where clients may be experiencing a temporary cash flow problem or a more permanent change in their circumstances that requires relief.

Various forms of rescheduling are available in order to offer suitable treatments. These include frequency, pay-date, payment break, variable instalment and term extension rescheduling.

The objective of our approach to rescheduling is to offer a solution to our clients that is mutually beneficial, as it addresses the needs of clients and mitigates the risk of credit losses.

All forms of rescheduling are governed by a centrally controlled rules engine. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term by which a loan term can be extended. Rescheduling performance is continuously monitored on a segmented approach to ensure that it remains within the risk appetite of the bank; rules and provisioning are reviewed accordingly. Validation of the rescheduling policy is performed by credit book and decision support, business intelligence, financial management (provisioning) and the legal department (compliance) and agreed at the credit committee.

Business support

Credit risk management support is provided by other areas of business to ensure optimisation of the granting, collections and recoveries models and systems.

Business intelligence	Delivery of automated, standardised and custom developed reporting to influence credit strategy.
Information technology: systems capability	Continuous improvement of the credit life cycle support systems and automation of policies.
Business development	Supporting the optimisation of systems and providing project and change management support.

New products and channels

This credit capability management area plays a critical role in the enablement of solutions that will ensure that the credit offer finds acceptance with clients and takes account of trends in the market while performing within the credit risk appetite.

Product management principles Coordination of business case and profit model assumptions to: • Install appropriate credit risk management disciplines; and • Continuously optimise product strategy.
New product development
New channel enablement

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Counterparty credit risk

Capitec has limited counterparty credit risk in terms of the Banks Act Regulation as we do not operate a trading book. Our exposures are limited to hedges entered into to mitigate interest rate and currency risk in the banking book, and resale investment transactions concluded as part of cash management activities.

Investment credit risk

Capitec has a low risk appetite regarding the investment of surplus cash and liquidity buffers. This cash is invested in the wholesale money markets, per discretion of treasury subject to the parameters defined by the RCMC.

Treasury targets a weighted average maturity of 90 days for the cash portfolio and maintains a healthy stock of highly liquid investments. A hold-to-maturity approach is used. The yield must be commensurate with any increase in risk.

Other credit risk

Corporate insurers

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

Suppliers

The credit committee assesses and approves pre-payment and stock exposure at suppliers as part of the procurement policy, to limit operational and financial risk.

Rating grades and related risk weights

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

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Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure[1] 28 Feb 2017	Average gross exposure[1] 29 Feb 2016	Aggregate gross period-end exposure[2][4] 28 Feb 2017	Aggregate gross period-end exposure[2][4] 29 Feb 2016	Exposure post risk mitigation[2][3][4] 28 Feb 2017	Exposure post risk mitigation[2][3][4] 29 Feb 2016	Risk weights[5] (%)
On balance sheet							
Corporate[6]	**3 963 570**	3 073 816	**2 247 465**	2 944 813	**1 647 899**	2 783 248	100
Sovereign[7]	**6 020 822**	4 406 793	**7 222 438**	4 334 487	**7 222 438**	4 334 487	–
Banks (claims < 3 mths original maturity)	**7 321 547**	5 267 274	**7 393 335**	4 553 981	**7 393 335**	4 553 981	20
Banks (claims > 3 mths original maturity	**7 134 207**	6 889 042	**8 133 961**	7 544 754	**8 133 961**	7 544 754	50
Banks (Derivatives >3mths Aaa to Aa3)	**106 390**	165 596	**72 498**	224 893	**72 498**	224 893	20
Banks (Derivatives > 3 mths A1 to Baa3)	**6 594**	13 828	**4 113**	13 708	**4 113**	13 708	50
Retail personal loans							
• with unidentified impairments	**40 903 378**	37 316 991	**40 695 064**	37 040 146	**40 695 064**	37 040 146	75
• with identified impairments	**4 239 093**	3 313 668	**4 437 398**	3 839 721	**4 437 398**	3 839 721	100
Subtotal	**69 695 601**	60 447 008	**70 206 272**	60 496 505	**69 606 706**	60 334 939	
Off balance sheet							
Corporate facilities	**–**	1 363	**–**	–	**–**	–	100
Retail personal loans							
• retail guarantees	**–**	–	**–**	–	**–**	–	75
• committed undrawn facilities	**–**	–	**–**	–	**–**	–	75
• conditionally revocable commitments[8]	**301 704**	319 174	**457 610**	204 013	**457 610**	204 013	–
Total exposure	**69 997 305**	**60 767 545**	**70 663 882**	**60 700 518**	**70 064 315**	**60 538 952**	

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

(1) Average gross exposure is calculated using daily balances for the last 6 months.

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

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

(4) 'Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month 6 of the respective reporting periods. All other items are the balances at the respective month-ends.

(5) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the regulations. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade rating to a risk-weight percentage using the mapping table (shown on page 16). The risk weightings for retail exposures are specified directly in the banking regulations. A standard risk weight of 75% is applied to performing retail exposures while impaired exposures attract a standard 100% risk weight, net of allowed impairments.

(6) 51.1% (Feb 2016: 75.2%) of corporate (unrated) aggregate gross period-end exposure relates to investments in money market unit trusts.

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

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

(9) These commitments are as a result of undrawn credit facility and undrawn credit card amounts. 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. 52.1% (Feb 2016: 36.4%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

Liquidity risk

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

Our approach

* Liquidity risk is managed by the asset and liability committee (ALCO) that oversees the activities of treasury which operates in terms of an approved asset and liability management (ALM) policy.

Liquidity measurements

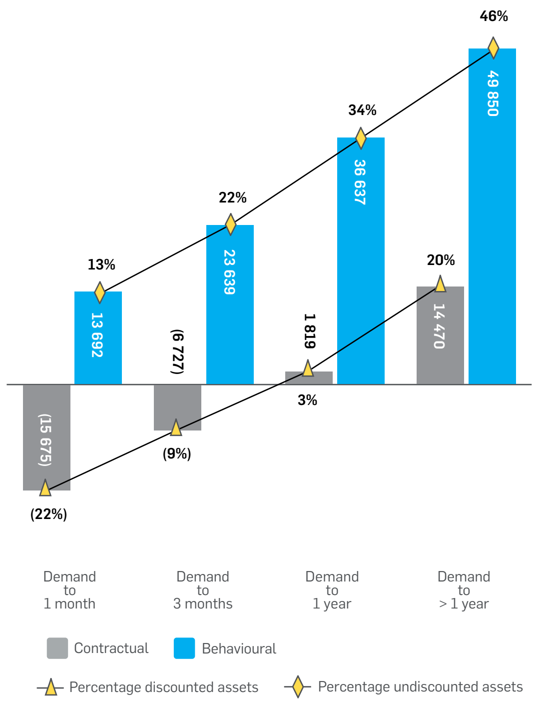
* *Contractual and behavioural liquidity mismatches*

Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 92% (2016: 92%) of these deposits are reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions.

For cash planning purposes the contractual mismatch is utilised and not the behavioural mismatch.

LIQUIDITY RISK MANAGEMENT STRATEGY

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*



The Liquidity coverage ratio (LCR)

The LCR is a 30-day stress test, using 90 days (actual data points for the quarter) to calculate an average for the quarter, which requires banks to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

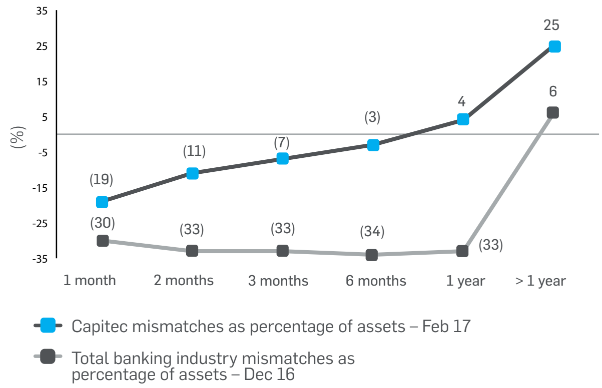
The Liquidity Coverage Ratio (LCR)

LCR	2017	2016
LCR (%)	**1 152**	1 040
High-quality liquid assets (R'm)	**9 266**	6 671
Net outflow [(1)] (R'm)	**804**	641

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

A ratio of 100% or more represents compliance in terms of Basel 3 requirements. The requirement to comply is being phased in and a ratio of 80% is required from January 2017.

Capitec adheres to more stringent internal liquidity measurements than required by Basel 3.



The Net stable funding ratio (NSFR)

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows in addition to placing strong reliance on retail deposit funding. A ratio of 100% or more represents compliance. Compliance is required by 2018.

The Net Stable Funding Ratio (NSFR)

NSFR	2017	2016
NSFR (%)	**188**	145
Required stable funding (R'm)	**35 240**	34 630
Available stable funding (R'm)	**66 181**	50 192

Capitec's conservative approach to liquidity management has resulted in compliance with these two Basel ratios. The NSFR is calculated as per the SARB rules currently in force.

* Capitec complied with all regulatory liquidity capital requirements during the current and prior year.

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

Market risk

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

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

Our exposure to market risk is mainly due to inherent interest rate risk arising on the retail banking activities (defined as the 'banking book' by Basel).

Our approach

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

Interest rate risk

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

Our approach

Capitec's inherent interest rate repricing mismatch is the result of the decision to offer fixed interest rate retail term loans and to be conservative with liquidity. The quantum of outstanding floating rate credit card balances is not currently material.

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

Fixed interest rate retail loans

The interest charged on all unsecured retail loans is based on fixed interest rates. This is to protect loan clients from the effect of rising interest rates.

When interest rates rise Capitec loan clients are protected from increasing instalments as their loans are contracted at fixed interest rates.

The impact of the liquidity strategy

The Capitec approach to liquidity is to match longer term loans with a healthy proportion of longer term funding. However, the longer term funding can initially be sourced with a floating coupon, contributing to the repricing mismatch.

Call deposits are not used to fund long-term loans. These floating rate deposits are matched in a floating rate investment portfolio.

*

The effect of shareholders' equity

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

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

Management of interest rate risk

The ALM policy precludes taking speculative or trading positions on the banking book. In general ALCO aims to match the fixed or floating-rate nature of funding with the fixed and floating-rate elements of the loan book and surplus cash positions. To manage mismatches, long-term floating-rate liabilities may be swapped to fixed rates.

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

Regulatory sensitivity analysis of equity – 200 basis point shift

	2017		2016	
	R'000	(%)	R'000	(%)
Increase	**(645 367)**	(3.8)	(700 840)	(4.2)
Decrease	**662 379**	3.9	725 017	4.4

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

* *Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

*

Insurance risk

Capitec sells life insurance to its customers by the way of a cell captive structure. The exposure within the cell captive is fully re-insured.

Equity risk

Capitec does not deal in equity instruments. The bank has limited exposure to equity investments.

Currency risk

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

Currency risk has minimal impact on Capitec's operations as they are all within South Africa. Imported capital equipment and technological support services result in limited exposure to currency fluctuations. However, these transactions are fully hedged by means of forward exchange contracts. The limited borrowing done in foreign currency is fully hedged using currency swaps.

Hedging of market risk

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

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

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

Business risk

*

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

Our approach

Business risk management is overseen from a risk perspective by the risk committee (RISCO), a subcommittee of the RCMC and managed operationally by the EXCO and board.

Our risk mitigation strategy includes:

- Daily operational assessment of performance against the operational plan and MOS;
- Monthly assessment of performance against strategic plan development; and
- System optimisation.

Daily operational management

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

- Service
- People
- Business optimisation

Strategic management

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

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

Capital management

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

Capital to manage risk and growth

Capitec retains capital not only for risk on the existing portfolio, but also to support risk arising from planned growth. Both supply and demand factors impact capital adequacy and must be managed.

Supply-side risk

Supply-side risk relates to procuring appropriate capital resources at appropriate pricing and times, to maintain capital buffers at the stipulated requirements of regulators and meet the expectations of shareholders.

Demand-side risk

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

Risk management throughout the business addresses the demand-side risk, which encompasses risks that negatively impact earnings and capital.

Capitec's principal policies when managing capital:

- Ensure that return on capital targets is achieved through efficient capital management, while ensuring that adequate capital is available to support the growth of the business.
- Ensure that there is sufficient risk capital with a capital buffer for unexpected losses to protect depositors and shareholders and ensure sustainability through the business cycle.

*

Capital for sustainability

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

Our approach

The following structures and procedures are in place to manage capital effectively:

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

A strong common equity tier 1 capital ratio of 31%.

** Denotes text in the risk management report that forms part of the bank's audited annual financial statements.*

ICAAP

The ICAAP aims to achieve policy objectives; this is an ongoing process and drives capital management decisions. It addresses the management of capital and solvency risk as well as the risks arising from the pro-cyclicality of business operations through the economic cycle.

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

Functions and processes of the ICAAP include:

- Determining capital sufficiency through a review of the historical and future capital positioning. The ICAAP reviews the historical and future capital positioning from a regulatory, shareholders' and an internal capital perspective.
- Forecasting capital supply requirements, including stressing the budget and/or forecast to determine the sufficient capital requirement in a downturn of the economic cycle.
- Allows the Regulator to assess the bank's capital planning strategy.
- Managing the bank's approach to raising capital that is required to underwrite the risks of the business. The bank aims to raise capital when conditions are conducive and the sustainability, reputation and price optimisation benefits offset any issuing cost.
- Planning return on equity (ROE) as an input of investment decisions and credit originating models.

The impact of Basel 3

Basel calculation methods for credit and operational risk capital

The regulatory capital requirement for credit and operational risk is calculated using a percentage applied to the risk-weighted assets of the business.

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

Capitec operates a mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business.

The impact of Basel 3 on capital adequacy measurement

Loss absorbency

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

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

Subsidiary third-party capital

Basel 3 limits the contribution of preference share capital and subordinated debt issued by subsidiaries, in the bank capital adequacy ratio. This consolidation deduction is being phased in at 20% per year from 1 January 2013. This limitation aims to encourage the issue of capital by holding companies, rather than by subsidiaries.

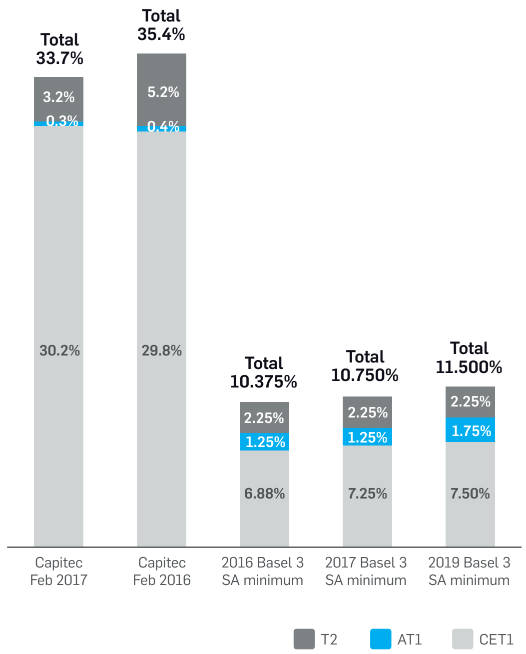
Leverage ratio

The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. Capitec had a calculated regulatory leverage ratio of five times CET1 capital as at the end of the reporting period (2016: 5 times CET1). The maximum allowed leverage in South Africa is 25 times CET1 capital.

Restrictions on the transfer of regulatory capital

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

CAPITAL ADEQUACY BY TIER



- CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.
- AT1 – Additional Tier 1 capital – Capitec's perpetual preference shares qualify as entry-level AT1 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards.
- T2 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary as the interest cost is offset against revenue. This debt is regarded as third-party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the reporting period.
- Globally, the Basel 3 minimum capital adequacy percentage is 8%.
- The 2017 Basel 3 SA minimum includes the South African country buffer of 1.50% (2016: 1.75%; 2019: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.
- The 2019 Basel 3 SA minimum includes the capital conservation buffer of 2.5% which phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.
- Excluded from the SA minimum are the Basel 3:
  - Bank-specific buffers – Bank-specific buffers include the Individual Capital Requirement (ICR) and Domestic Systematically Important Bank (D-SIB) buffer. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. Any D-SIB requirement will be phased in over four years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis cannot be more than 3.5%.
  - A countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth. The implementation period commenced in January 2016 with the rate of 0%.
  - Haircuts to be applied against a deemed surplus attributable to minority and third-party capital issued by subsidiaries, which began phasing in from 2013 at 20% per year.

Operational risk

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

Our approach

The RISCO directs, governs and coordinates all risk management processes in accordance with an approved policy. All divisional heads are members of RISCO.

A dedicated operational risk manager is responsible for the application of the bank's policies, providing guidance in terms of best practice and for ensuring consistent implementation and reporting of material exposures or trends to the board and regulatory authorities. The operational risk manager also involves himself in the analysis of risk incidents and the development of new products constantly identifying and mitigating new risk areas.

Our risk mitigation strategy includes:

Risk mitigation strategy
All identified risks are listed in a risk register where it is managed and measured by key risk indicators.

Fraud mitigation strategy

- We are focused on using technology optimally to prevent exposure to fraud and to ensure that we are at the forefront of fraud prevention.
- A fraud policy outlines for employees what constitutes fraud and corruption, and details the procedures to be followed where fraud or corruption is suspected or discovered.
- Co-operation with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime, including bribery and corruption charges.

Insurance

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

Business continuity

A continuity management team is responsible for all aspects of business continuity. The business continuity framework and methodology is based on ISO 22301 and has been approved by the board. The framework is linked to the recovery plan.

The business continuity and disaster recovery plan documents procedures to be followed should an extreme event occur.

- The disaster recovery and evacuation plans have been tested successfully during the year.
- The IT disaster recovery (DR) plans are tested continuously.

Compliance

We regard the interconnectedness of the banking industry and the reliance that the economy and citizens of the country place on the banks, as one of the most important drivers in our approach to compliance with legislation.

Notable regulators that impact our conduct:

- South African Reserve Bank
- National Credit Regulator
- JSE Limited
- Financial Intelligence Centre
- Financial Service Board
- Information Regulator

Our risk mitigation strategy includes:

- A professional relationship with our regulators and, where possible, endeavours to influence policy and principles of regulation to the benefit of the banking industry as a whole;
- ensuring involvement in the national payments system as a member of PASA;
- the bank has a dedicated compliance function as prescribed by the Banks Act to manage the bank's compliance risk; and
- continuous independent compliance monitoring through independent assurance reviews by compliance monitoring officers, in accordance with an annual board-approved compliance monitoring coverage plan.

Information technology risk

The persistent pursuit to provide clients with simplified banking drives Capitec information technology to focus on innovative methods of technology application and solutions.

In addition, during this reporting period we have invested in improving our system architecture to better support our clients' needs.

Protecting our clients' information

While focusing on innovation and solutions we also continue to focus on protecting our clients' information and keep their best interests in mind through sound security practices and safeguards.

We have a matured information security approach that consistently monitors and remediates areas of concern where our clients and company information could be at risk.

IT governance framework

Information technology governance is implemented according to the Capitec information technology governance policy.

The governance policy is built on a strong framework that incorporates principles and controls defined in international standards, such as Cobit, Information Security Forum (ISF) Standards of Good Practice, ISO 25999, and ISO 27001/2.

The framework provides guidelines and structures to ensure that an IT strategy is created, approved, reviewed and implemented in a manner that is always aligned with the business strategy, with great focus on our clients.

The IT governance framework also defines the IT organisational structure as well as the policies and procedures that are required to facilitate good governance and compliance practices within IT. Weekly executive management meetings, as well as formal IT prioritisation meetings, provide platforms where strategic IT matters and initiatives are discussed and priorities are aligned.

Weekly meetings, focused on IT risks and potential issues, ensure that situations that could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed on a senior management level. Important issues are thus dealt with at the appropriate level of urgency and focus.

During the year under review there has been a drive to ensure IT resources remain focused on the delivery of critical projects by better adherence to project management disciplines.

IT compliance

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

Information security management system

The Capitec information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information systems. Our Information Security Management System is based on ISO 27001/2 standards and the best practice principles of the Information Security Forum, "Standards of good practice". Information security management is the responsibility of the information security manager.

Cyber security management

Capitec has a dedicated team focussing solely on the protection, detection and response to cyber security within the bank and we actively test our own information technology controls for weaknesses in order to better our security and response times. Capitec is also actively involved in industry initiatives, such as the South Africa Banking Risk Information Centre (SABRIC) to establish and embed well-coordinated security response mechanisms in the event of major security threats to the banking industry or individual banks.

Reputational risk

This is the current or prospective risk to earnings and capital arising from an adverse perception of the image of Capitec on the part of customers, counterparties, investors, employees or regulators.

Our approach

Reputational risk is managed on an ongoing basis through our disclosure in our annual financial statements and through public statements. Reputational risk areas are managed directly on an executive management level.

Our risk mitigation strategy includes:

- Centralised policy on media.
- Escalation process for complaints.
- Clear relationship with stakeholders.

Stress testing and contingency planning

Stress testing programme

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

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

Contingency planning

The bank conducts integrated scenario based recovery planning in order to prepare for contingencies. In addition to SARB's requirements, the bank conducts recovery planning to ensure it is well prepared to withstand capital, liquidity and operational risk shocks.

Liquidity recovery plan

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

Capital recovery plan

A capital recovery plan detects possible capital stress occurrences and provides guidance on appropriate actions to respond to early warning signs. As it is difficult to obtain additional capital in times of stress, Capitec has a proactive and preventative approach to capital procurement. Management makes use of positive market conditions and positioning to obtain additional capital.

simplicity is the ultimate sophistication

Annual Financial Statements

02

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

Statement of responsibility by the board of directors

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

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Capitec Bank Limited. The annual financial statements, comprising the statement of financial position at 28 February 2017, 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 ('Code').

The company's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on pages 33 to 37.

The annual financial statements set out on pages 38 to 101 were approved by the board of directors and signed on its behalf on 27 March 2017 by:

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank, that for the year ended 28 February 2017, 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.

Yolande Mouton

Stellenbosch
27 March 2017

Audit committee report

Capitec Bank Limited

The Capitec Bank Limited 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 three non-executive directors. A fourth non-executive member, Mr PJ Mouton resigned from the committee effective 21 February 2017. 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 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 28 February 2017.

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 2017 financial year.
- 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 company's financial statements for the year ended 28 February 2017 and, based on the information provided to the committee, considers that the company complies, in all material respects and with the requirements of the Act.
- Undertaken the prescribed functions (in terms of section 94(7) of the Act.

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

- Considered the sustainability information as disclosed in the annual report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 27 March 2017, recommended the annual report for approval by the board of directors.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties.

The committee approved the internal audit charter and the annual audit plan.

- The committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself in terms of the JSE Listing Requirements 3.84(h), that the company's financial director has appropriate expertise and experience.

Jean Pierre Verster
Chairman

27 March 2017

Directors' report

Year ended 28 February 2017

The directors present their annual report to shareholders for the year ended 28 February 2017.

Nature of the business

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 28 February 2017 bringing the number of shares in issue to 1 300 000 (February 2016: 1 300 000).

No ordinary shares were repurchased during the year and 253 660 (February 2016: 368 707) preference shares were repurchased.

Dividends to shareholders

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

	2017	2016
Ordinary dividend (R'000)		
Interim	**520 321**	433 601
Final	**925 016**	786 264
Preference dividend		
Interim	**8 464**	8 277
Final	**7 258**	7 820

The final ordinary dividend for 2017 was approved by the directors on 27 March 2017. 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 at the reporting date are as follows:

AP du Plessis (Chief financial officer)
MS du Pré le Roux (Retired as chairman on 27 May 2016)
GM Fourie (Chief executive officer)
RJ Huntley (Ms) (Resigned on 21 September 2016)
NS Mashiya (Appointed as executive director on 1 June 2016)
JD McKenzie
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
G Pretorius (Retired on 27 May 2016)
R Stassen (Appointed as chairman on 27 May 2016)
JP Verster

Directors' 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:

YM Mouton (Ms)

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 28 February 2017 and the date of approval of these financial statements.

Independent auditor's report

To the Shareholders of Capitec Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capitec Bank Limited (the Company) as at 28 February 2017, 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.

What we have audited

Capitec Bank Limited's financial statements set out on pages 38 to 101 comprise:

- the statement of financial position as at 28 February 2017;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the Capitec Bank Limited Annual Report 2017, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview

Overall materiality

Overall materiality: R254 million, which represents 5% of profit before tax.

Key audit matters

Key audit matter that relates to the audit of the financial statements:

- Impairment provision of loans and advances to clients.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R254 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Impairment provision of loans and advances to clients

The credit impairment provision inherently contains a significant amount of estimation uncertainty as significant judgement is required of management regarding inputs into the calculation. At 28 February 2017, the gross retail unsecured loans and advances were R45.1 billion against which an impairment provision of R5.9 billion was recorded. Because of the significance of the management judgements in the provision calculation and the magnitude of loans and advances, the impairment provision was considered a matter of most significance in our audit.

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

Identified impairments:

For loans and advances individually identified as impaired, statistical techniques are used to calculate the impairment allowances collectively. Discounted cash flow models for each of the loan products are used to calculate the impairment provision, based on significant inputs. These inputs include forecasted cash flows, as well as adjustments where observable data indicates there is a measurable decrease in the estimated future cash flows. Significant management judgement is required regarding the timing and amount of the aforementioned cash flows. The timing and amount of the forecasted cash flows are based on historical loss experience which is used to estimate the probability of default and recovery rates of future cash flows. These cash flows are then discounted at the respective original effective interest rates.

Management analyses the loans and advances book on a monthly basis and increase the results produced by the modelled output for current macro-economic influences not reflected in the historical data that influences the modelled output.

Incurred but unidentified impairments

In addition to the above identified impairments, an estimate is made for impairments associated with those assets in the statement of financial position 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 determined based on the experience of the length of time that it takes for objective evidence to become apparent after the asset has become impaired and is considered to be a significant estimate.

Refer to note 7 and note 22 (page 57, 58 and 65) and note 27.1 for credit risk disclosure, as well as 2.4 (Accounting policy) and note 3 (Critical accounting estimates and judgements).

How our audit addressed the key audit matter

Our audit procedures included considering the appropriateness of the loans and advances impairment provision in terms of the requirements of *International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39).* Our audit response focused on the significant inputs used by management in their impairment calculation.

We obtained an understanding and tested the relevant internal controls over the impairment of loans and advances. Our testing included performing a reconciliation of the data from the loans and advances administration system to the data used in the impairment calculation. Using this data we have tested the inputs used by management to develop the historical base from which to calculate the estimated future cash flows.

Together with our actuaries we evaluated the estimated future cash flows and discount rate used by management in their impairment calculation. Our assessment of the inputs used within the cash flow model included an assessment of the probability of default and run-off of recoveries which are areas of significant judgement. We assessed the appropriateness of the methodologies and assumptions used, to the extent that this could have materially impacted the estimations around the timing and amount of the future cash flows. We compared this to our own methodologies and available industry and actuarial data. We found management's approach and assumptions to be consistent with our expectations.

We gained an understanding of how management used other relevant information to increase the output of their models in determining the impairment provision relating to loans and advances. Using our knowledge and understanding of the industry as well as other current observable factors which in our view we would expect to be taken into account given industry and economic data available, we evaluated this increase and found it to be in line with our own independent expectation.

For incurred but unidentified impairment, we assessed the assumptions specifically around the emergence period, and considered these to be reasonable when compared to our own actuarial statistics and market experience.

Together with our actuaries we performed an independent calculation of the impairment provision and relevant inputs in the models used by management to estimate the future cash flows, discount rate as well as management's other adjustments. We found this to be within an acceptable range of outcomes.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Capitec Bank Limited Annual Report 2017 which includes the Directors' Report, the Audit Committee's Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Capitec Bank Limited for 16 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C van den Heever
Registered Auditor
Cape Town
27 March 2017

Statement of financial position

As at 28 February 2017

R'000	Notes	2017	2016
Assets			
Cash, cash equivalents and money market funds	4	**18 671 294**	14 161 138
Held-to-maturity investments	5	**5 326 724**	3 634 710
Term deposit investments	6	**6 600 749**	7 188 781
Loans and advances to clients	7	**39 202 053**	35 755 444
Other receivables	8	**1 125 558**	210 638
Derivative assets	9	**58 113**	225 403
Available-for-sale financial assets	10	**100 000**	–
Current income tax asset		**–**	52 702
Group loans receivable	11	**112 486**	109 178
Equipment	12	**1 413 773**	1 012 202
Intangibles	13	**279 946**	242 648
Deferred income tax asset	14	**458 270**	349 614
Total assets		**73 348 966**	62 942 458
Liabilities			
Deposits and bonds	15	**55 582 271**	47 940 148
Derivative liabilities	38, 39	**45 598**	–
Other liabilities	16	**1 771 989**	1 327 283
Provisions	17	**81 024**	107 905
Current income tax liability		**30 341**	–
Group loans payable	18	**11 130**	16 336
Total liabilities		**57 522 353**	49 391 672
Equity			
Capital and reserves			
Ordinary share capital and premium	19	**6 105 981**	6 105 981
Cash flow hedge reserve	20	**(11 736)**	64 147
Retained earnings		**9 581 370**	7 206 764
Share capital and reserves attributable to ordinary shareholders		**15 675 615**	13 376 892
Non-redeemable, non-cumulative, non-participating preference share capital and premium	19	**150 998**	173 894
Total equity		**15 826 613**	13 550 786
Total equity and liabilities		**73 348 966**	62 942 458

Income statement

Year ended 28 February 2017

R'000	Notes	2017	*Restated* 2016
Lending and investment income	21	**16 070 739**	14 018 269
Interest income	21	**14 933 918**	13 411 427
Loan fee income	21	**1 136 821**	606 842
Lending and investment expenses		**(4 194 266)**	(3 573 720)
Interest expense	21	**(3 551 821)**	(2 883 666)
Loan fee expense	21	**(642 445)**	(690 054)
Net lending and investment income		**11 876 473**	10 444 549
Transaction fee income		**5 499 858**	4 326 103
Transaction fee expense		**(1 576 435)**	(1 305 890)
Net transaction income		**3 923 423**	3 020 213
Net impairment charge on loans and advances to clients	22	**(5 121 177)**	(4 400 637)
Net movement in financial instruments held at fair value through profit or loss	23	**–**	(1 304)
Other income		**54**	101
Income from operations		**10 678 773**	9 062 922
Operating expenses		**(5 591 429)**	(4 659 850)
Operating profit before tax	24	**5 087 344**	4 403 072
Income tax expense	25	**(1 390 435)**	(1 224 036)
Profit for the year		**3 696 909**	3 179 036

Statement of other comprehensive income

Year ended 28 February 2017

R'000	Notes	2017	2016
Profit for the year		**3 696 909**	3 179 036
Cash flow hedge recognised during the year	20	**(211 809)**	189 037
Cash flow hedge reclassified to profit and loss for the year	20	**107 867**	(111 163)
Total movement in cash flow hedge before tax		**(103 942)**	77 874
Income tax relating to cash flow hedge	20	**28 059**	(20 762)
Other comprehensive income for the period net of tax		**(75 883)**	57 112
Total comprehensive income for the year		**3 621 026**	3 236 148

Statement of changes in equity

Year ended 28 February 2017

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 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**
Total comprehensive income for the year	**–**	**–**	**(75 883)**	**3 696 909**	**3 621 026**
Ordinary dividend	**–**	**–**	**–**	**(1 306 584)**	**(1 306 584)**
Preference dividend	**–**	**–**	**–**	**(15 719)**	**(15 719)**
Preference shares repurchased	**–**	**(22 896)**	**–**	**–**	**(22 896)**
Balance at 28 February 2017	**6 105 981**	**150 998**	**(11 736)**	**9 581 370**	**15 826 613**
Notes	19	19	20		

Statement of cash flows

Year ended 28 February 2017

R'000	Notes	2017	Restated 2016
Cash flow from operating activities			
Cash flow from operations	30	**10 869 480**	8 924 051
Income taxes paid	31	**(1 387 989)**	(1 297 764)
		9 481 491	7 626 287
Cash flow from investing activities			
Purchase of equipment	12	**(771 308)**	(511 995)
Proceeds from disposal of equipment		**9 075**	23 136
Purchase of intangible assets	13	**(217 052)**	(124 208)
Loans to group companies		**(3 306)**	(79 185)
Investment in term deposit investments	6	**(7 011 184)**	(8 183 090)
Redemption of term deposit investments	6	**7 599 216**	6 772 783
Acquisition of held-to-maturity investments	5	**(7 619 880)**	(4 182 192)
Redemption of held-to-maturity investments	5	**5 927 866**	547 482
Acquisition of available-for-sale financial assets	10	**(100 000)**	–
Acquisition of investments at fair value through profit or loss and money market unit trusts		**5 924**	(89 147)
Disposal of investments at fair value through profit or loss and money market unit trusts		**–**	2 747 179
		(2 180 649)	(3 079 237)
Cash flow from financing activities			
Loans from group companies		**(5 206)**	3 192
Preference shares repurchased	19	**(22 896)**	(33 281)
Issue of institutional bonds and other funding		**774 070**	1 006 186
Redemption of institutional bonds and other funding		**(2 207 897)**	(1 546 098)
Dividends paid	32	**(1 322 832)**	(1 132 859)
		(2 784 761)	(1 702 860)
Net increase in cash and cash equivalents		**4 516 081**	2 844 190
Cash and cash equivalents at the beginning of the year		**14 148 358**	11 304 168
Cash and cash equivalents at the end of the year	4	**18 664 439**	14 148 358

Notes to the annual financial statements

Year ended 28 February 2017

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 statement of financial position, 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 696.9 million (2016: R3 179.0 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 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 policies comply with International Financial Reporting Standards ('IFRS'), interpretations issued by the IFRS Interpretations Committee ('IFRIC'), the JSE Listing Requirements 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 2.17 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 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 statement of financial position 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. Financial assets

(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 (2.14.4), 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.

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 receivables

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

- 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;
- those that the entity upon initial recognition designates as available-for-sale; or
- 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:

(i) loans and advances to clients that are recognised when funds are advanced to the borrowers and are carried at amortised cost using the effective interest rate method;

(ii) 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. Fixed and term notice deposits are carried at amortised cost using the effective interest rate method; and

(iii) Group loans receivable and other receivables.

(d) Available-for-sale investment

An equity investment is measured at fair value with unrealised gains or losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Dividends earned while holding available-for-sale financial investment are recognised in the income statement when the right to payment has been established.

2.3.2. Financial liabilities

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 and subsequently stated at amortised cost using the effective interest rate method.

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.

2.3.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.3.4. Derivative financial instruments and hedging activities

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

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

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

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

The bank designates certain derivatives as:

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

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

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example: when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within other operating expenses as well as 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. Refer to Note 39 for separate disclosure.

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 the 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 in cash flows of hedged items.

Treatment of economic hedges classified as fair value through profit or loss

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 38 and 39. Movements on the hedging reserve in shareholders' equity are shown in Note 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 less than three months are included under cash and cash equivalents. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

2.4 Impairment of advances

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

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

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

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

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

(c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank including:

- adverse changes in the payment status of borrowers in the bank; or
- national or local economic conditions that correlate with defaults on the assets in the bank.

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

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

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

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

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

2.4.1. Identified impairment

Loans and advances within the bank comprise a large number of small, homogeneous 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. The estimated recoveries is then discounted at the contractual rates and then 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 statement of financial position that are impaired, but for which objective evidence is not yet available.

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

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

2.4.3. *Loan write-offs*

Clients (and the related impairment allowance accounts) are written off at the earliest of when they are in arrears for 90 days or more or legal hand-over occurs. The estimated recoveries is then discounted at the contractual rates are recognised in gross loans and advances.

2.5 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 statement of financial position date.

2.6 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.

2.7 Property and equipment

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

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

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

• Banking application hardware	3 – 5 years
• Automated teller machines	10 years
• Computer equipment	3 – 5 years
• Office equipment	5 – 8 years
• Motor vehicles	5 years

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

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

2.8 Computer software

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

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

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

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

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

2.9 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.

2.10 Share capital

2.10.1. 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.

2.10.2. Share issue costs

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

2.10.3. 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 statement of financial position date are dealt with in the directors' report.

2.11 Employee benefits

2.11.1. 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.

2.11.2. Share-based compensation

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.

2.11.3. 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.

2.12 Foreign currency translation

2.12.1. Functional and presentation currency

Items included in the financial statements 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 functional and presentation currency.

2.12.2. 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.

2.13 Revenue recognition

2.13.1. 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.

Loan origination fees that relate to the creation of a financial asset are a amortised over the term of the loan on an effective interest rate basis.

2.13.2. Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided. Net insurance income are recognised when the services are provided in the third party cell. Loan fee expenses are recognised when the services are received in the first party cell.

2.13.3. *Transaction income and expenses*

Transaction income and expenses are recognised on an accrual basis in the period in which the services are rendered.

2.13.4. *Dividend income*

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

2.14 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.

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.

2.15 Leases

2.15.1. *Where the bank is the lessee*

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

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

2.15.2. *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.

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

- 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)
- Annual Improvements to IFRSs 2014 Cycle (1 March 2016)

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.

2.17 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 2017 or later periods but which the bank has not early adopted, as follows:

- 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)
- Amendment to IFRS 2 – Share-based Payment (effective 1 March 2018)
- Amendment to IFRS 7 – Financial Instrument Disclosures (effective 1 March 2018)
- IFRS 16 – Leases (effective 1 March 2019)
- IFRIC 22 – Foreign currency transactions and advance consideration (effective 1 March 2018)
- IAS 12 – Amendment to IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses (effective 1 March 2017)

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

The most significant of these new and proposed accounting requirements for the company from 1 March 2018 relates to IFRS 9 and from 1 March 2019 relating to IFRS 16.

The IASB has issued IFRS 9 which replaced IAS 39 for financial years commencing 1 January 2018 and which the company will apply for the company's financial year ending 28 February 2019.

The company is currently preparing for the adoption of IFRS 9. The IFRS 9 ECL will represent an impact to the company's financial results, risk matrix and regulatory capital requirements. Economic capital, the bank's funding and liquidity and stressed earnings are also expected to be impacted by greater earnings volatility.

The difference between the previous IAS 39 and the new IFRS 9 carrying values will be recognised in the company's opening retained earnings. It is the company's intention to adopt the requirements retrospectively, reflected in opening retained earnings from 1 March 2018.

IFRS 16 relating to leases, was issued in January 2016 and applies to our reporting periods beginning 1 March 2019.

Under the current IAS 17, lessees are required to make a distinction between a finance lease and an operating lease. IFRS 16 will require the bank to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for all the bank's applicable lease contracts.

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

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 either a charge or release for impairment of loans and advances in the income statement.

In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there are 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. An estimate is made for impairment associated with those assets in the statement of financial position that are impaired but for which objective evidence is not yet available by assessing the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. An emergence of period of three months is used for the performing loan book with a longer emergence period used for the renegotiated loan book. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to Note 2.4 for the accounting policy regarding the impairment of advances 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	2017	2016
Expected default rates increase by 5%	63 001	55 388
Expected default rates decrease by 5%	(63 592)	(55 610)

R'000	2017	2016

4. Cash, cash equivalents and money market funds

Cash on hand[(1)]	**3 091 691**	2 648 884
Bank balances	**12 166 769**	9 630 196
Resale agreements[(2)]	**756 937**	805 552
Treasury bills	**726 936**	248 329
Central bank balances		
Debentures	**1 001 323**	–
Mandatory reserve deposits with central bank[(3)]	**920 783**	815 397
Cash and cash equivalents	**18 664 439**	14 148 358
Money market unit trusts[(4)]	**6 855**	12 780
Total cash, cash equivalents and money market funds	**18 671 294**	14 161 138
Maximum exposure to credit risk	**18 671 294**	14 161 138
Current	**18 671 294**	14 161 138

(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. Held-to-maturity investments

Interest-bearing instruments[(1)]		
Balance at the beginning of the year	**3 634 710**	–
Additions	**7 619 880**	4 182 192
Maturities	**(5 927 866)**	(547 482)
Total investments at amortised cost[(2)]	**5 326 724**	3 634 710
Maximum exposure to credit risk	**5 326 724**	3 634 710
Current	**5 326 724**	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), 83% (2016: 89%) of the balance and investments in Negotiable Certificates of Deposits issued by various banks, 17% (2016: 11%) of the balance. (Refer to Note 27.1 for ratings)

(2) The Liquid Asset Requirement of R1 843.5 million (2016: R1 630.8 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.

6. Term deposit investments

Balance at the beginning of the year	**7 188 781**	5 778 474
Additions	**7 011 184**	8 183 090
Disposals	**(7 599 216)**	(6 772 783)
Total term deposit investments[(1)]	**6 600 749**	7 188 781
Maximum exposure to credit risk	**6 600 749**	7 188 781
Current	**6 600 749**	7 188 781

(1) All balances are due by banks and have original maturity dates of more than three months but contractually less than one year. Investments comprise term-to-notice and fixed term instruments. (Refer to Note 27.1 for ratings)

R'000	2017	2016

7. Loans and advances to clients

Maturity analysis		
Demand to one month	**1 995 287**	1 954 547
One to three months	**2 636 689**	2 188 976
Three months to one year	**10 727 723**	8 742 135
More than one year	**30 491 475**	28 582 560
Total	**45 851 174**	41 468 218
Loan origination fees	**(718 744)**	(581 169)
Gross loans and advances	**45 132 430**	40 887 049
Term loans and credit facility	**44 542 554**	40 887 049
Credit Card	**589 876**	–
Allowance for impaired loans and advances	**(5 930 377)**	(5 131 605)
Net loans and advances to clients [1][2]	**39 202 053**	35 755 444
Analysis of net loans and advances by status		
Gross	**39 607 037**	35 229 443
Impairment	**(3 024 728)**	(2 697 102)
Current [3]	**36 582 309**	32 532 341
Provision %	**7.6**	7.7
Gross	**1 087 996**	1 817 885
Impairment	**(166 384)**	(287 644)
Current – rescheduled from current not rehabilitated [9]	**921 612**	1 530 241
Provision %	**15.3**	15.8
Gross	**1 582 527**	1 542 283
Impairment	**(820 757)**	(758 244)
Current – rescheduled from arrears not rehabilitated [4][9]	**761 770**	784 039
Provision %	**51.9**	49.2
Gross	**2 854 870**	2 297 438
Impairment	**(1 918 508)**	(1 388 615)
Arrears [5]	**936 362**	908 823
Provision %	**67.2**	60.4
Credit quality of performing loans and advances [6][7]		
Low risk	**10 898 218**	8 729 723
Medium risk	**22 398 860**	21 451 881
High risk	**7 397 955**	6 865 724
Performing loans	**40 695 033**	37 047 328
Ageing of arrears		
< 60 days	**2 365 013**	1 971 940
60 – 90 days	**489 857**	325 498
	2 854 870	2 297 438
Movement on allowance for impaired advances		
Unidentified impairments	**3 742 990**	2 701 059
Identified impairments	**1 388 615**	1 156 311

R'000	2017	2016

7. Loans and advances to clients (continued)

Opening balance	**5 131 605**	3 857 370
Unidentified impairments	**268 879**	1 041 931
Identified impairments	**529 893**	232 304
Movement	**798 772**	1 274 235
Unidentified impairments	**4 011 869**	3 742 990
Identified impairments	**1 918 508**	1 388 615
Closing balance	**5 930 377**	5 131 605

Exposure to credit risk		
Loans and advances to clients	**45 851 174**	41 468 218
Conditionally revocable retail loan commitments(8)	**457 610**	203 515
Maximum exposure to credit risk	**46 308 784**	41 671 733

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

(2) Accrued interest receivable of R214.1 million is included in loans and advances (2016: R232.7 million).

(3) Loans and advances not past due on which a portfolio impairment allowance has been raised are treated as current. The net present value of expected recoveries on loans that were handed over for collection, amounted to R525 million (2016: R442 million) and were included in the current status.

(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 forbearance. 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 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 R457.6 million (2016: R203.5 million) are not included in the maturity analysis. These commitments are as a result of undrawn credit facility and credit card amounts. 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. 52.1% (2016: 34.6%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital change in terms of the standardised approach for credit risk.

(9) Clients are deemed to be rehabilitated once they have made six consecutive contractual payments.

8. Other receivables

Deposits(1)	**34 388**	28 707
Accrued income	**954 212**	86 774
SARB settlement balance	**587 540**	–
Net insurance receivable(2)	**252 360**	–
Other receivable	**114 312**	86 774
Prepayments(3)	**136 958**	95 157
Total other receivables	**1 125 558**	210 638

Current	**1 123 420**	208 449
Non-current	**2 138**	2 189
Maximum exposure to credit risk	**1 125 558**	210 638

(1) Deposits include the amount receivable from the insurer which was initially paid to subscribed for the specific class of preference shares issued by the insurer to the bank for the first and third party cell captive.

(2) The amount receivable from the insurer represents the right to the residual interest in the cell captive and is, after initial recognition, measured based on the net asset position of the cell captive at the end of the reporting period. This amount is reduced by dividends declared by the insurer on the specific class of preference shares held by the bank.

(3) Prepayments refers to monthly rental paid in advance and client cards.

R'000	2017	2016

9. Derivative assets

Derivatives[1]	**58 113**	225 403
Current	**54 900**	6 214
Non-current	**3 213**	219 189

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

10. Available-for-sale financial assets

Unlisted securities[1]		
Additions	**100 000**	–
Total available-for-sale financial assets	**100 000**	–

(1) Capitec Bank is a participant in a consortium that recapitalised African Bank. The other members of the consortium comprise the Public Investment Corporation and five other South African banks.

11. Group loans receivable

Loan to share incentive trust	**17**	4 157
Loan to fellow subsidiary[1]	**112 469**	105 021
Total group loans receivable	**112 486**	109 178
Current	**112 486**	109 178
Non-current	**–**	–

(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.

R'000	Computer equipment	Office equipment and vehicles	Total

12. Equipment

2017

Opening net book value	**531 961**	**480 241**	**1 012 202**
Additions	**439 130**	**332 178**	**771 308**
Disposals	**(11 102)**	**(919)**	**(12 021)**
Depreciation charge	**(187 796)**	**(169 920)**	**(357 716)**
Net book value at the end of the year	**772 193**	**641 580**	**1 413 773**
Cost	**1 629 492**	**1 529 146**	**3 158 638**
Accumulated depreciation	**(857 299)**	**(887 566)**	**(1 744 865)**
Net book value at the end of the year	**772 193**	**641 580**	**1 413 773**
Non-current	**772 193**	**641 580**	**1 413 773**

R'000	Computer equipment	Office equipment and vehicles	Total

12. Equipment (continued)

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

R'000	2017	2016

13. Intangible assets

Computer software [(1)]		
Cost	**604 969**	523 652
Accumulated amortisation	**(362 321)**	(284 777)
Opening net book value	**242 648**	238 875
Additions	**217 052**	124 208
Scrappings	**(1 223)**	(22 904)
Amortisation charge	**(178 531)**	(97 531)
Net book value at the end of the year	**279 946**	242 648
Cost	**782 100**	604 969
Accumulated amortisation	**(502 154)**	(362 321)
Net book value at the end of the year	**279 946**	242 648
Non-current	**279 946**	242 648

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

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Prepayments	Total

14. Deferred income tax asset

2017					
Balance at the beginning of the year	424 312	(23 595)	(37 500)	(13 603)	349 614
Income statement charge	85 920	–	(1 994)	(3 329)	80 597
Debited to equity through other comprehensive income	–	28 059	–	–	28 059
Balance at the end of the year[1]	510 232	4 464	(39 494)	(16 932)	458 270
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
Current				229 691	213 700
Non-current				228 579	135 914

(1) Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2016: 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	2017	2016

15. Deposits and bonds

By maturity		
Within one month	31 059 904	25 042 666
One to three months	2 855 050	3 350 970
Three months to one year	8 218 385	6 770 557
More than one year	13 448 932	12 775 955
Deposits and bonds[1]	55 582 271	47 940 148
By nature		
Retail funding		
Retail savings	30 116 518	24 152 425
Retail fixed deposits	17 922 702	13 634 429
Institutional bond and other funding[3]	48 039 220	37 786 854
Subordinated debt – unlisted bonds	755 921	1 008 466
Subordinated debt – listed bonds[2]	1 929 271	1 928 779
Listed senior bonds[2]	3 169 928	4 351 702
Unlisted negotiable instruments	863 812	1 296 456
Wholesale	824 119	1 411 592
SARB settlement balance	–	156 299
	7 543 051	10 153 294
	55 582 271	47 940 148
Amounts payable on maturity of the funding[4]	60 066 125	52 253 412

15. Deposits and bonds (continued)

Subordinated debt analysis

Description	Nominal amount	Issue date	Term	Rate
Subordinated debt – unlisted bonds – floating rate	R100 million	2010/08/30	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	R100 million	2010/09/21	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	2011/10/31	7 year	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	2012/07/06	7 year	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	2011/09/06	7 year	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	2012/02/01	7 year	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	2012/02/01	7 year	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	2012/08/23	7 year	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	2012/08/23	7 year	3-month JIBAR plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	2012/12/14	7 year	3-month JIBAR plus 4.49%

(1) All deposits and bonds are unsecured.
(2) Comprises notes listed on Capitec Bank's DMTN programme registered on the JSE's interest rate board.
(3) Institutional bond and other funding issued at variable rates is hedged through interest rate swap agreements as set out in notes 20 and 39. The nominal value of hedged funding consists of:

Subordinated debt – unlisted bonds	*R744 million*
Subordinated debt – listed bonds	*R1 122 million*
Listed senior bonds	*R1 250 million*
Unlisted negotiable instruments	*R350 million*
Wholesale	*R774 million*

(4) The difference between the amounts payable on maturity and the loans and deposits at amortised cost relates to future finance cost.
(5) Included in wholesale funding is a foreign denominated loan valued at R343.5 million denominated in USD. Refer to Note 20 for further disclosure of the cashflow hedge reserve balance.

16. Other liabilities

R'000	2017	2016
Trade payables	**560 729**	470 275
Dividends payable	**7 259**	7 787
Accruals	**711 154**	655 617
Share option and share appreciation rights accrual (Notes 36 and 37)	**492 847**	193 604
Total other liabilities	**1 771 989**	1 327 283
Current	**1 244 369**	921 139
Non-current	**527 620**	406 144

R'000	2017	2016

17. Provisions

Performance incentive scheme (1)		
Balance at the beginning of the year	**107 905**	64 268
Addition	**44 053**	77 884
Used during the year	**(70 934)**	(34 247)
Balance at the end of the year	**81 024**	107 905
Non-current	**81 024**	107 905

(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 2019 and 2020 financial years are included in provisions. The bonus to be paid in the 2018 financial year is included in accruals.

18. Group loans payable

Loan owing to holding company	**11 130**	16 336
	11 130	16 336
Current	**11 130**	16 336

19. Share capital and premium

Authorised		
Ordinary shares		
5 000 000 000 shares of R0.01 each	**50 000**	50 000
Non-redeemable, non-cumulative, non-participating preference shares (2)		
100 000 000 shares of R0.01 each	**1 000**	1 000
Compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares (3)		
100 000 000 shares of R0.01 each	**–**	–
Loss absorbent preference shares (Conversion) (3)		
100 000 000 shares of R0.01 each	**1 000**	1000
Loss absorbent preference shares (Write-off) (3)		
100 000 000 shares of R0.01 each	**1 000**	1 000
	53 000	53 000
Issued (1)		
1 300 000 (2016: 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
1 672 844 (2016: 1 926 504) shares of R0.01 each at par	**17**	19
Share premium	**150 981**	173 875
Non-redeemable, non-cumulative, non-participating preference share capital and premium (2)	**150 998**	173 894
Total issued share capital and premium	**6 256 979**	6 279 875

(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 III is R258 969 000. At year-end, 41.69% (2016: 32.85%) 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 was substituted for 100 000 000 loss absorbent preference shares (conversion) with a par value of R0.01 each.

R'000	2017	2016

20. Cash flow hedge reserve

Balance at the beginning of the year	**64 147**	7 035
Amount recognised in comprehensive income during the year	**(211 809)**	189 037
Amount reclassified from comprehensive income and included in profit and loss for the year	**107 867**	(111 163)
	(39 795)	84 909
Deferred tax recognised in comprehensive income during the year	**28 059**	(20 762)
Balance at the end of the year[1]	**(11 736)**	64 147

(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 lending and investment income

Interest income		
Loans and advances to clients	**12 389 019**	11 289 804
Loan origination fees	**836 080**	938 633
Non-bank money market placements	**17**	132
Money market funds and term deposit investments	**1 288 157**	924 659
Treasury bills	**30 986**	13 695
Bank balances	**9 978**	2 278
Resale agreements	**18 331**	7 920
Debentures	**4 116**	3 652
Interest-bearing instruments	**357 234**	230 654
Total interest income[1][2]	**14 933 918**	13 411 427
Loan fee income		
Monthly service fee	**874 938**	606 842
Net insurance income	**261 883**	–
Total loan fee income[1]	**1 136 821**	606 842
Total lending and investment income	**16 070 739**	14 018 269
Interest expense		
Retail savings	**(1 373 051)**	(950 439)
Retail fixed deposits	**(1 287 741)**	(926 543)
Other unlisted wholesale	**(95 045)**	(133 212)
Subordinated debt	**(338 860)**	(342 477)
Domestic Medium Term Note	**(352 218)**	(398 829)
Negotiable deposits	**(102 844)**	(130 911)
Other	**(2 062)**	(1 255)
Total interest expense	**(3 551 821)**	(2 883 666)
Loan fee expense	**(642 445)**	(690 054)
Total lending and investment expense	**(4 194 266)**	(3 573 720)
Net lending and investment income	**11 876 473**	10 444 549

(1) Reclassification of 2016:

As part of the review of the bank's basis of preparation policy to consistently comply with IFRS and interpretation issued by the IFRS Interpretation Committee (IFRIC), we have reclassified loan origination fees to be included in interest income and not form part of loan fee income as previously presented.

The portion of loan origination fees that relate to the creation of a financial asset are amortised over the term of the loan on an effective interest rate basis, with the unamortised portion of the fees recorded as deferred loan fee income contained within net loans and advances to clients.

21. Net lending and investment income (continued)

The impact of this reclassification is presented as follows:

R'000	As reported in 2016	Reported previously	Impact
Total interest income[2]	**13 411 673**	12 473 038	938 635
Total loan fee income	**606 842**	1 545 477	(938 635)
Total lending and investment income	**14 018 515**	14 018 515	–

(2) Included in interest income is R104.3 million (2016: R86.5 million) with respect to interest income accrued on loans and advances in arrears.

R'000	2017	2016

22. Net impairment charge on loans and advances to clients

Bad debts written off	**5 447 481**	3 980 854
Movement in impairment allowance[1]	**798 772**	1 274 235
Bad debts recovered	**(1 125 076)**	(854 452)
Net impairment charge	**5 121 177**	4 400 637

(1) The movement in impairment allowance as per Note 7.

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

Change in fair value due to risk factors	**–**	(1 304)
Financial assets held at fair value through profit or loss	**–**	(1 304)

24. Operating profit before tax

The following items are included in operating profit before tax:

Profit/(loss) on disposal of equipment	**2 946**	(10 978)
Loss on scrapping of intangibles	**1 223**	22 904
Depreciation on fixed assets	**357 716**	305 099
Amortisation of computer software	**178 531**	97 531
	540 416	414 556
Advertising and marketing	**185 979**	169 138
Bank charges	**230 634**	206 120
Consumables	**191 647**	165 948
Communications	**177 751**	139 702

R'000	2017	2016

24. Operating profit before tax (continued)

	2017	2016
Operating lease rentals		
Land and buildings	**405 994**	344 995
Office equipment	**4 574**	2 188
	410 568	347 183
Income from subletting	**(3 409)**	(2 707)
Auditors' remuneration		
Audit fees–current year	**3 935**	4 075
Other services	**1 014**	464
	4 949	4 539
Employee costs		
Salaries and bonus costs	**2 537 036**	2 228 554
Cash-settled share-based payment	**196 458**	94 340
Cash-settled share appreciation rights	**147 797**	102 512
Social security cost	**71 722**	53 316
Training cost	**40 871**	57 613
Training refund	**(4 724)**	(4 163)
	2 989 160	2 532 172

25. Income tax expense

	2017	2016
Current tax	**1 471 032**	1 282 697
Deferred tax	**(80 597)**	(58 661)
Income tax expense	**1 390 435**	1 224 036
Effective tax rate	**27**	28

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

	2017	2016
Operating profit before tax	**5 087 344**	4 403 072
Tax calculated at a tax rate of 28%	**1 424 456**	1 232 860
Adjustments for prior periods	**(881)**	(667)
Income not subject to tax[1]	**(1 966)**	(2 516)
Expenses not deductible for tax purposes[2]	**112**	198
Allowances not in income statement[3]	**(31 286)**	(5 839)
Income tax expense	**1 390 435**	1 224 036

(1) This includes income (other than foreign dividends) exempt from tax in the form of the PAYE Tax Incentive and local dividends.
(2) Donations not deductible.
(3) Other permanent differences in the form of Learnership agreements.

26. Dividends

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

	R'000 Rand	Declared	LDT	Date Paid
2017				
Ordinary dividend				
Interim	**520 321**	**26 Sep 2016**	**11 Oct 2016**	**17 Oct 2016**
Final[(1)]	**925 016**	**27 Mar 2017**	**18 Apr 2017**	**24 Apr 2017**
Preference dividend				
Interim	**8 464**	**31 Aug 2016**	**20 Sep 2016**	**26 Sep 2016**
Final	**7 258**	**28 Feb 2017**	**14 Mar 2017**	**20 Mar 2017**
2016				
Ordinary dividend				
Interim	433 601	28 Sep 2015	16 Oct 2015	26 Oct 2015
Final	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

(1) The directors declared a final dividend of R925.0 million (2016: R786.3 million) in respect of 2017 on 27 March 2017. 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 2018, 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.

Note 27 should be read with the sections in chapter 1 of the Capitec Bank Limited annual report and the sections marked as audited.

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 sub-committees comprising executives and senior management:

- Credit committee – credit and counterparty risk;
- Assets and liability committee (ALCO) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk; and
- 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.

27.1 Credit risk

Retail lending

The bank grants retail unsecured loans. Exposure to single-name concentration credit risk is low due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book. Exposure to systemic credit risk is regarded as being potentially higher 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 statement of financial position is exposed to credit risk.

Interest rate limits and fees for credit agreements were changed on 6 May 2016. Prior to this date, we charged our clients an all-inclusive rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-May 2016 loan book in a manner through a first party cell captive structure. Following the changes from May 2016, all new applicable loans granted, require our clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment and in the case of death; there is no claim against their deceased estate for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third party cell captive. The exposure within the cell captives is fully re-insured to the reinsurance market. The credit quality of loans and advances is disclosed in Note 7.

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 R250 000 (2016: R250 000). At the statement of financial position date the number of outstanding loans was 1 569 113 (2016: 1 485 081).

Investments

The bank only invests centrally managed cash surpluses and liquidity buffers 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 concentration credit risk exists principally in cash and cash equivalents, interest bearing instruments and term deposit investments (Notes 4,5 and 6). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the credit committee, monitored and approved by the RCMC. 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. Financial risk management (continued)

27.1 Credit risk (continued)

At the statement of financial position 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
2017						
Cash on hand	4	**–**	**3 091 691**	**–**	**–**	**3 091 691**
Bank balances(1)	4	**–**	**12 166 755**	**–**	**14**	**12 166 769**
Resale agreements(4)	4	**–**	**–**	**–**	**756 937**	**756 937**
Central bank balances(3)	4	**–**	**1 922 106**	**–**	**–**	**1 922 106**
Treasury bills (<3 months)	4	**–**	**726 936**	**–**	**–**	**726 936**
Money market funds(2)	4	**–**	**–**	**–**	**6 855**	**6 855**
Treasury bills (>3 months)	5	**–**	**4 446 262**	**–**	**–**	**4 446 262**
Negotiable certificates of deposit (>3 months)	5	**452 973**	**427 489**	**–**	**–**	**880 462**
Term deposit investments(5)	6	**1 568 958**	**5 031 791**	**–**	**–**	**6 600 749**
Accrued income	8	**–**	**587 540**	**–**	**366 672**	**954 212**
Derivative assets	38, 39	**56 168**	**1 945**	**–**	**–**	**58 113**
		2 078 099	**28 402 515**	**–**	**1 130 478**	**31 611 092**
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(5)	7	1 933 518	4 888 710	–	366 553	7 188 781
Accrued income	8	–	–	–	86 774	86 774
Derivative assets	38, 39	213 695	11 708	–	–	225 403
		2 297 863	21 727 175	–	1 184 994	25 210 032

(1) *The bank balances were with 8 institutions (2016: 8), with the maximum exposure to one institution being R6 305 million (2016: R5 013 million).*

(2) *Money market funds consist of money market unit trusts. The placements were with 5 institutions (2016: 5).*

(3) *All central bank balances are with the SARB and includes 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 R756.9 million (2016: R824.1 million) of which Rnil have been sold or repledged. The resale agreements indicated as 'unrated' are secured by negotiable instruments of banks regulated and domiciled in South Africa and carry international ratings of BBB. The initial agreement is with an unrated entity, resulting in the allocation above.*

27. Financial risk management (continued)

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.

Capitec's interest rate risk position is primarily the result of offering fixed-rate retail term loans and a conservative liquidity strategy. Interest rate management 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.

Cash, cash equivalents, money market funds and term deposit investments are invested in a mix of instruments earning a fixed rate of interest and those paying interest based on a floating rate. The bank has discretion over the rates paid on its demand savings deposits and pays a fixed interest on its fixed term retail deposits. Bond and wholesale deposit liabilities comprise a mix of floating and fixed rate instruments. The bank's most significant financial asset, loans and advances, which are carried at amortised cost, are exposed to fixed rates.

The bank actively manages interest rate risk by minimising its exposed of the fixed rate financial assets by in part cash flow hedging elements of its variable rate funding book to a fixed rate. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt. The net unmatched position, resulting from the bank's exposure to variable rate funding from its retail deposits, exposures the bank to cash flow interest rate risk.

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.

Sensitivity analysis

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

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

- Immediately following the reporting date.
- Based on floating rate assets and liabilities held at amortised cost (negotiable instruments, floating bond liabilities), excluding the effect of cash flow hedges.
- On the statement of financial position 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 twelve months, on an undiscounted basis, on net interest income, inclusive of the effect of interest rate hedges.
- The impact on equity reflects the change in the valuation of interest rate cash flow hedges subsequent to the 12-month period.

27. Financial risk management (continued)

27.2 Interest rate risk (continued)

	Impact on Income Statement				Impact on Equity			
200-basis points	2017		2016		2017		2016	
R'000	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	**(2 320)**	**(1 671)**	(25 482)	(18 347)	**66 124**	**47 609**	124 353	89 534
Decrease	**2 320**	**1 671**	25 482	18 347	**(66 124)**	**(47 609)**	(124 353)	(89 534)

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

27.4 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates. Our exposure to market risk is mainly due to interest rate risk arising on the retail banking activities.

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 the statement of financial position 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 the statement of financial position 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 statement of financial position (off-statement of financial position items), are excluded. Refer to Note 33.
- Conditionally revocable retail loan commitments totalling R457.6 million (2016: R203.5 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 52% (2016: 34%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future drawdowns must also occur within the month.

27.5 Liquidity risk (continued)

- 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.

Maturities of financial assets and financial liabilities[2] R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment /open-ended[3]	Total
2017							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 957 106	698 000	–	–	–	2 655 106
Cash and cash equivalents – banks	4	11 536 139	4 520 353	–	–	–	16 059 492
Money markets unit trusts – corporate other	4	6 855	–	–	–	–	6 855
Held-to-maturity investments – sovereigns and banks[5]	5	240 000	1 656 973	3 611 740	–	–	5 508 713
Term deposit investments	6	110 487	3 176 224	3 553 678	–		6 840 389
Available-for-sale financial assets	10	–	–	–	–	100 000	100 000
Loans and advances to clients – retail personal	7	3 063 925	4 744 656	18 854 394	49 105 534	(718 744)	75 059 765
Loans and advances to clients – corporate other	7	10 164	–	–	–	–	10 164
Other receivables	8	697 477	4 753	284 231	2 139	–	988 600
Derivative assets	9	227	(3 912)	63 487	3 774	–	63 576
Group loans receivable	10	112 486	–	–	–	–	112 486
Undiscounted assets		17 737 866	14 797 047	26 367 530	49 111 447	(618 744)	107 405 146
Adjustments for undiscounted assets		(1 084 395)	(2 222 778)	(8 492 957)	(18 614 620)	–	(30 414 750)
Discounted assets							
Loan impairment provision	7	(596 245)	(289 262)	(1 066 511)	(3 978 359)	–	(5 930 377)
Total discounted assets		16 054 226	12 285 007	16 808 062	26 518 468	(618 744)	71 060 019
Undiscounted liabilities							
Deposits and bonds	15	31 088 297	3 066 531	9 317 048	16 594 249	–	60 066 125
Current income tax liabilities		92 694	(62 353)	–	–	–	30 341
Other liabilities	16	659 391	540 621	44 357	313 820	213 800	1 771 989
Derivative liabilities		9 314	3 282	10 467	25 399	–	48 462
Group loans payable	18	11 130	–	–	–	–	11 130
Provisions	17	–	–	–	81 024	–	81 024
Undiscounted liabilities		31 860 826	3 548 081	9 371 872	17 014 492	213 800	62 009 071
Adjustments for undiscounted liabilities to depositors		(28 393)	(211 526)	(1 099 174)	(3 147 625)	–	(4 486 718)
Total discounted liabilities		31 832 433	3 336 555	8 272 698	13 866 867	213 800	57 522 353
Net liquidity excess/(shortfall)		(15 675 207)	(8 948 452)	8 545 364	12 651 601	(932 544)	13 537 666
Cumulative liquidity excess/(shortfall)[1]		(15 675 207)	(6 726 754)	1 818 609	14 470 210	13 537 666	13 537 666

27.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities(2) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment /open-ended(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
Short-term corporate bills	4	–	–	–	–	–	–
Money markets unit trusts – corporate other	4	12 780	–	–	–	–	12 780
Investments at fair value through profit or loss – sovereigns and banks	5	–	–	–	–	–	–
Held-to-maturity investments – sovereigns and banks(5)	5	300 000	1 164 862	2 259 519	–	–	3 724 381
Term deposit investments	6	507 685	3 120 278	3 760 798	–		7 388 761
Loans and advances to clients – retail personal	7	3 000 335	4 221 805	16 606 143	45 068 671	(581 169)	68 315 785
Loans and advances to clients – retail other	7	–	–	–	–	–	–
Loans and advances to clients – corporate other	7	11 448	–	–	–	–	11 448
Other receivables	8	82 858	5 437	–	27 186	–	115 481
Derivative assets	9	(1 037)	1 159	6 428	263 048	–	269 598
Current income tax asset		–	–	52 702	–	–	52 702
Group loans receivable	10	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	7	(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 at amortised cost	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. Open-ended refers to available-for-sale financial assets.

(4) 83% of held-to-maturity investments - sovereigns and banks relates to investments in sovereigns.

27.5 Liquidity risk (continued)

Analysis of financial assets and liabilities with maturities of more than one year – R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2017								
Undiscounted assets								
Loans and advances to clients – retail personal	7	49 105 534	20 004 096	14 269 631	8 577 910	4 309 429	1 944 468	–
Other receivables	8	2 139	1 919	–	–	–	220	–
Derivative assets	9	3 774	730	3 044	–	–	–	–
Undiscounted assets		49 111 447	20 006 745	14 272 675	8 577 910	4 309 429	1 944 688	–
Adjustments for undiscounted assets		(18 614 620)	(7 625 367)	(4 739 483)	(2 985 923)	(2 031 849)	(1 232 998)	–
Discounted assets								
Loan impairment provision	7	(3 978 359)	(1 510 614)	(1 107 644)	(696 632)	(387 652)	(275 818)	–
Total discounted assets		26 518 468	10 870 765	8 425 548	4 895 355	1 889 928	436 872	–
Undiscounted liabilities								
Deposits and bonds	15	16 594 249	5 589 963	4 458 402	3 241 139	3 012 020	292 725	–
Other liabilities	16	313 820	176 713	87 481	27 055	4 408	18 162	–
Derivative liabilities	16	25 399	18 521	4 462	2 416	–	–	–
Provisions	17	81 024	58 998	22 027	–	–	–	–
Undiscounted liabilities		17 014 492	5 844 195	4 572 372	3 270 610	3 016 428	310 887	–
Adjustments for undiscounted liabilities to depositors		(3 147 625)	(1 106 471)	(759 648)	(589 095)	(657 813)	(34 598)	–
Total discounted liabilities		13 866 867	4 737 724	3 812 724	2 681 515	2 358 615	276 289	–
Net liquidity excess/(shortfall)		12 651 601	6 133 041	4 612 824	2 213 840	(468 687)	160 583	–
Cumulative liquidity excess/(shortfall)		14 470 210	7 951 650	12 564 474	14 778 314	14 309 627	14 470 210	14 470 210

27.5 Liquidity risk (continued)

Analysis of financial assets and liabilities with maturities of more than one year – R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2016								
Undiscounted assets								
Loans and advances to clients – retail personal	7	45 068 671	17 382 049	12 934 442	8 195 894	4 156 894	2 399 392	–
Other receivables	8	27 186	26 969	–	–	–	217	–
Derivative assets	9	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	7	(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								
Loans and deposits at amortised cost	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

27.6 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 has an Internal Capital Adequacy Assessment Process (ICAAP), which on an ongoing basis drives the bank's position on capital management. The ICAAP reviews the historic, current and future capital positioning of the bank, both from an internal and regulatory capital perspective

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

R'000	2017	2016
Composition of qualifying regulatory capital		
Ordinary share capital	**6 105 981**	6 105 981
Accumulated profit	**9 581 370**	7 206 764
	15 687 351	13 312 745
Regulatory adjustments		
– Intangible assets in terms of IFRS	**(279 946)**	(242 648)
– Specified advances	**(18)**	(4 158)
– Unappropriated profit	**(808 996)**	(549 390)
Common Equity Tier 1 capital (CET1)	**14 598 391**	12 516 549
Issued preference share capital[7]	**150 998**	173 894
Phase out – non-loss absorbent[1]	**(21 513)**	(18 513)
Additional Tier 1 capital (AT1)	**129 485**	155 381
Tier 1 capital (T1)	**14 727 876**	12 671 930
Issued subordinated debt	**2 641 000**	2 891 000
Phase out – non-loss absorbent[1]	**(1 588 400)**	(1 156 400)
Total subordinated debt	**1 052 600**	1 734 600
Unidentified impairments	**491 168**	459 703
Tier 2 capital (T2)	**1 543 768**	2 194 303
Qualifying regulatory capital	**16 271 644**	14 866 233
CET1 %	**30.2**	29.8
AT1 %	**0.3**	0.4
T1 %	**30.5**	30.2
T2 %	**3.2**	5.2
Total capital adequacy %[2]	**33.7**	35.4

27.6 Capital management (continued)

Composition of required regulatory capital		
On the statement of financial position	**4 225 547**	3 593 005
Off the statement of financial position	**–**	–
Credit risk	**4 225 547**	3 593 005
Operational risk	**622 784**	292 060
Equity risk in banking book	**41 165**	–
Other assets	**300 371**	204 444
Total regulatory capital requirement(3)	**5 189 867**	4 089 509
Composition of risk-weighted assets(4)		
On the statement of financial position	**39 307 414**	36 851 331
Off the statement of financial position	**–**	–
Credit risk	**39 307 414**	36 851 331
Operational risk	**5 793 340**	2 995 489
Equity risk in the banking book	**382 933**	–
Other assets	**2 794 146**	2 096 864
Total risk-weighted assets	**48 277 833**	41 943 684
Total assets based on IFRS	**73 348 966**	62 942 458
Total risk-weighted assets – adjustments(5)	**(25 071 133)**	(20 998 774)
Total risk-weighted assets – regulatory	**48 277 833**	41 943 684

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

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

(3) This value is 10.75% (2016: 9.75%) of risk-weighted assets, being the Basel global minimum requirement of 8%, the South African country-specific buffer of 1.5% (2016: 1.75%) and the Capital Conservation Buffer of 1.25% (disclosable in terms of SARB November 2016 directive in order to standardise reporting across banks). In terms of the regulations the Individual Capital Requirement (ICR) is excluded. Operational risk disclosure changed from 01 March 2016, per the SA Reserve Bank's instruction. The operational risk capital add-on, in accordance with the ASA method, has been converted to an equivalent Risk Weighted Asset (RWA). This reduced the Capital Adequacy Ratio by approximately 1.9% in March 2016, as qualifying capital remains the same but is divided by a higher RWA amount.

(4) Risk-weighted assets are calculated by using regulatory percentages applied to the statement of financial position, 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 III is R258 969 000. At year-end, 41.69% (2016: 32.85%) 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	Notes	At fair value through profit and loss		At amortised cost		
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total
2017						
Interest income	21	**–**	**–**	**14 933 918**	**–**	**14 933 918**
Interest expense	21	**–**	**–**	**–**	**(3 551 821)**	**(3 551 821)**
Loan fee income		**–**	**–**	**1 136 821**	**–**	**1 136 821**
Loan fee expense		**–**	**–**	**(642 445)**	**–**	**(642 445)**
Transaction fee income		**–**	**–**	**–**	**5 499 858**	**5 499 858**
Transaction fee expense		**–**	**–**	**–**	**(1 576 435)**	**(1 576 435)**
Net impairment on loans and advances to clients	22	**–**	**–**	**(5 121 177)**	**–**	**(5 121 177)**
2016						
Interest income	21	–	–	13 411 427	–	13 411 427
Interest expense	21	–	–	–	(2 883 666)	(2 883 666)
Loan fee income		–	–	606 842	–	606 842
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)

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

Valuation processes

Determination on fair values and valuation processes

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 statement of financial position and income statement and assume an orderly market on a going concern basis.

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, 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

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

The fair value hierarchy is applied to both those assets and liabilities measured at fair value through profit and loss and those measured using amortised cost.

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

The table below summarises the classification of financial assets and financial liabilities and their fair values.

R'000	Notes	At fair value through other comprehensive income: Financial assets	At fair value through other comprehensive income: As hedging instrument	At amortised cost: Financial assets	At amortised cost: Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2017								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	18 671 294	–	18 671 294	18 671 294	(2)
Held-to-maturity investments	5	–	–	5 326 724	–	5 326 724	5 326 724	
Available-for-sale investment	10	100 000	–	–	–	100 000	100 000	Level 3
Term deposit investments	6	–	–	6 600 749	–	6 600 749	6 600 749	(2)
Loans and advances to clients	7	–	–	39 202 053	–	39 202 053	45 064 417	Level 3
Other receivables	8	–	–	988 600	–	988 600	988 600	(2)
Derivative assets[1]	9	–	58 113	–	–	58 113	58 113	Level 2
Group loans receivable	11	–	–	112 486	–	112 486	112 486	(2)
Financial liabilities								
Deposits and bonds	15	–	–	–	55 582 271	55 582 271	55 911 230	Level 2
– Listed bonds		–	–	–	5 099 199	5 099 199	5 234 729	
– Other fixed term institutional deposits		–	–	–	2 443 852	2 443 852	2 545 009	
– Retail deposits		–	–	–	48 039 220	48 039 220	48 131 492	
Derivative liabilities[1]		–	45 598	–	–	45 598	45 598	Level 2
Trade and other payables[2]	16	–	–	–	1 726 391	1 726 391	1 726 391	(2)
Group loans payable	18	–	–	–	11 130	11 130	11 130	(2)

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

R'000	Notes	At fair value through other comp-rehensive income	At fair value through profit and loss	At amortised cost				
		Financial assets	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	5			3 634 710				
Term deposit investments	6	–	–	7 188 781	–	7 188 781	7 188 781	(2)
Loans and advances to clients	7	–	–	35 755 444	–	35 755 444	38 164 830	**Level 3**
Other receivables	8	–	–	115 481	–	115 481	115 481	(2)
Derivative assets[1]	9	–	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)

(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

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

Loans and advances to clients

The expected present value technique was applied, discounting probability weighted cash flows 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 one year beta 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.

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 impairments on loans and advances. 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 and reward basis, industry cyclicality and the cost of regulation as banking is a regulated industry.
- *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.

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.

27.9 Fair value calculation methods, inputs and techniques (continued)

- *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 publicly quoted, closing Capitec Bank fixed-term deposit rates. The relevant rate used was that which matched the remaining maturity of the fixed deposit.

R'000	2017	2016
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 bonus cost as per Note 23.	**159 118**	127 340

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.

R'000	2017	2016

29. Related-party transactions

HOLDING COMPANY		
Dividends		
Ordinary dividend paid	**1 306 584**	1 115 810
Preference dividend paid	**15 719**	16 064
Capitec Bank Holdings Limited (holding company)	**1 322 303**	1 131 874
Management fees paid	**3 121**	3 263
Loans due to:		
Capitec Bank Holdings Limited (holding company)	**11 135**	16 341
PARTIES WITH SIGNIFICANT INFLUENCE		
Brokers' fees – PSG Group and subsidiaries(1)	**110**	236
Loans due from:		
Capitec Bank Holdings Share Trust	**(17)**	(4 157)
Capitec Properties Proprietary Limited (fellow subsidiary)	**(112 469)**	(105 021)
KEY MANAGEMENT		
Key management employees' remuneration		
Salaries and other short-term benefits	**66 425**	66 193
Post-employment benefits	**2 378**	2 504
Share-based payments	**305 513**	161 150
Key management compensation(2)	**374 316**	229 847
Retail deposits from directors and other key management employees(3)		
Deposits at the beginning of the year	**7 599**	15 667
Interest earned during the year	**1 083**	941
Deposits/(withdrawals) made during the year	**2 711**	(9 009)
Deposits at the end of the year	**11 393**	7 599

(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.

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

29. Related-party transactions (continued)

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.

Directors' interest in share incentive scheme – options

2017

				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	01 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 17	15 Apr 14	196.43	5 936	–	–	–	5 936
	01 Apr 17	01 Apr 15	371.88	17 364	–	–	–	17 364
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	5 937	–	–	–	5 937
	01 Apr 18	01 Apr 15	371.88	17 364	–	–	–	17 364
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	5 937	–	–	–	5 937
	01 Apr 19	01 Apr 15	371.88	17 363	–	–	–	17 363
	01 Apr 19	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 20	01 Apr 15	371.88	17 363	–	–	–	17 363
	01 Apr 20	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 21	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 22	01 Apr 16	473.05	–	5 605	–	–	5 605
				114 139	22 420			136 559

29. Related-party transactions (continued)

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

2017

				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
GM Fourie	01 Nov 16	01 Nov 13	209.83	6 875	(6 875)	683.33	01 Nov 16	–
(direct beneficial)	01 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	01 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 17	15 Apr 14	196.43	4 582	–	–	–	4 582
	01 Apr 17	01 Apr 15	371.88	22 872	–	–	–	22 872
	01 Nov 17	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	4 583	–	–	–	4 583
	01 Apr 18	01 Apr 15	371.88	22 872	–	–	–	22 872
	01 Nov 18	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	4 583	–	–	–	4 583
	01 Apr 19	01 Apr 15	371.88	22 872	–	–	–	22 872
	01 Apr 19	01 Apr 16	473.05	–	9 170	–	–	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 20	01 Apr 15	371.88	22 871	–	–	–	22 871
	01 Apr 20	01 Apr 16	473.05	–	9 169	–	–	9 169
	01 Apr 21	01 Apr 16	473.05	–	9 169	–	–	9 169
	01 Apr 22	01 Apr 16	473.05	–	9 169	–	–	9 169
				158 360	29 802			188 162
Mashiya NS	01 Nov 17	02 Nov 15	539.88	8 875	–	–	–	8 875
(direct beneficial)	01 Nov 18	02 Nov 15	539.88	8 875	–	–	–	8 875
	01 Apr 19	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Nov 19	02 Nov 15	539.88	8 875	–	–	–	8 875
	01 Apr 20	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Nov 20	02 Nov 15	539.88	8 875	–	–	–	8 875
	01 Apr 21	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Apr 22	01 Apr 16	473.05	–	1 947	–	–	1 947
				35 500	7 791			43 291

29. Related-party transactions (continued)

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

2017

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
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				32 500	–			32 500
Total				340 499	60 013			400 512

Directors' interest in share incentive scheme – share appreciation rights

2017

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	01 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 17	15 Apr 14	0.01	2 016	–	–	–	2 016
	01 Apr 17	01 Apr 15	0.01	5 904	–	–	–	5 904
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	0.01	2 016	–	–	–	2 016
	01 Apr 18	01 Apr 15	0.01	5 904	–	–	–	5 904
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	0.01	2 017	–	–	–	2 017
	01 Apr 19	01 Apr 15	0.01	5 903	–	–	–	5 903
	01 Apr 19	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 20	01 Apr 15	0.01	5 903	–	–	–	5 903
	01 Apr 20	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 21	01 Apr 16	473.05	–	5 605	–	–	5 605
	01 Apr 22	01 Apr 16	473.05	–	5 605	–	–	5 605
				56 538	22 420			78 958

29. Related-party transactions (continued)

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

2017

				Opening balance	(SAR) exercised)/SAR granted			Closing balance
Directors	**Maturity date**	**Issue date**	**SAR exercise price R**	**Number of SAR**	**Number of SAR**	**Market price R**	**Exercise date**	**Number of SAR**
GM Fourie	01 Nov 16	01 Nov 13	209.83	6 875	(6 875)	683.33	01 Nov 16	–
(direct beneficial)	01 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	01 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 17	15 Apr 14	0.01	1 556	–	–	–	1 556
	01 Apr 17	01 Apr 15	0.01	7 777	–	–	–	7 777
	01 Nov 17	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	0.01	1 556	–	–	–	1 556
	01 Apr 18	01 Apr 15	0.01	7 777	–	–	–	7 777
	01 Nov 18	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	0.01	1 557	–	–	–	1 557
	01 Apr 19	01 Apr 15	0.01	7 776	–	–	–	7 776
	01 Apr 19	01 Apr 16	473.05	–	9 170	–	–	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 20	01 Apr 15	0.01	7 776	–	–	–	7 776
	01 Apr 20	01 Apr 16	473.05	–	9 169	–	–	9 169
	01 Apr 21	01 Apr 16	473.05	–	9 169	–	–	9 169
	01 Apr 22	01 Apr 16	473.05	–	9 169	–	–	9 169
				88 900	29 802			118 702
Mashiya NS	01 Nov 17	02 Nov 15	0.01	3 000	–	–	–	3 000
(direct beneficial)	01 Nov 18	02 Nov 15	0.01	3 000	–	–	–	3 000
	01 Apr 19	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Nov 19	02 Nov 15	0.01	3 000	–	–	–	3 000
	01 Apr 20	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Nov 20	02 Nov 15	0.01	3 000	–	–	–	3 000
	01 Apr 21	01 Apr 16	473.05	–	1 948	–	–	1 948
	01 Apr 22	01 Apr 16	473.05	–	1 947	–	–	1 947
				12 000	7 791			19 791
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				32 500	–			32 500
Total				189 938	60 013			249 951

Directors' remuneration

The total share option expense relating to directors amounted to R74 669 746 (2016: R31 689 335) and share appreciation rights expense amounted to R57 761 790 (2016: R39 518 151).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date(1)
2017						
Executive(1)						
AP du Plessis	7 525	76	2 861	–	10 462	3 204
GM Fourie	9 750	80	3 750	–	13 580	5 242
NS Mashiya(4)	3 733	112	1 418	–	5 263	1 113
Non-executive						
MS du P le Roux	–	–	–	589	589	–
RJ Huntley(5)	–	–	–	184	184	–
JD McKenzie	–	–	–	565	565	–
NS Mjoli-Mncube	–	–	–	330	330	–
PJ Mouton	–	–	–	495	495	–
CA Otto	–	–	–	620	620	–
G Pretorius(6)	–	–	–	79	79	–
R Stassen (Chairman)(3)	–	–	–	1 004	1 004	–
JP Verster	–	–	–	565	565	–
	21 008	268	8 029	4 431	33 736	9 559

(1) The fair value takes into account the vesting proportion of options and rights granted during the year at reporting date.

29. Related-party transactions (continued)

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	–	–	–	491	491	–
JP van der Merwe(2)	–	–	–	29	29	–
	14 710	697	8 073	4 584	28 064	15 428

(1) The executive directors are the prescribed officers of the company.
(2) Retired on 20 March 2015.
(3) Replaced MS du P le Roux as chairman on 27 May 2016.
(4) Appointed as an executive director on 1 June 2016.
(5) Resigned on 21 September 2016.
(6) Retired 27 May 2016

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
2017					
JC Carstens	**3 792**	**45**	**1 444**	**5 281**	**1 134**
W De Bruyn	**5 417**	**80**	**2 062**	**7 559**	**1 853**
CG Fischer(1)	**1 050**	**11**	**–**	**1 061**	**–**
HAJ Lourens	**4 500**	**50**	**1 725**	**6 275**	**1 549**
NST Motjuwadi	**2 760**	**88**	**1 043**	**3 891**	**698**
A Olivier	**4 838**	**55**	**1 839**	**6 732**	**1 652**
L Venter	**4 300**	**45**	**1 635**	**5 980**	**1 469**
F Viviers(4)	**1 890**	**79**	**750**	**2 719**	**893**
	28 547	**453**	**10 498**	**39 498**	**9 248**
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
NS Mashiya	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(2)	953	10	–	963	–
CG van Schalkwyk(3)	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

(1) Retired on 31 May 2016.
(2) Retired on 31 May 2015.
(3) Retired on 30 November 2015.
(4) Appointed on 22 June 2016.

The total share option expense relating to prescribed officers above amounted to R101 699 943 (2016: R44 056 786) and share appreciation rights expense amounted to R71 381 585 (2016: R40 342 693). This expense includes the movement on all tranches.

Financial assistance amounting to Rnil (2016: R2 599 062) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to R2 662 040 (2016: Rnil).

R'000	2017	2016

30. Cash flow from operations

Net profit before tax	**5 087 344**	4 403 072
Adjusted for non-cash items		
Fair value adjustments on financial assets	**–**	1 304
Loan impairment charge	**798 772**	1 274 235
Depreciation	**357 716**	305 099
Amortisation	**178 531**	97 531
Loss on disposal of assets	**4 169**	11 926
Movements in assets and liabilities		
Loans and advances to clients	**(4 245 381)**	(4 547 647)
Other receivables	**(914 920)**	(6 442)
Derivatives	**108 946**	(111 682)
Deposits and bonds	**9 075 950**	7 298 755
Trade and other payables	**145 991**	159 395
Movements in provisions	**(26 881)**	43 637
Share-based employee costs – options	**178 488**	28 424
Share-based employee costs – share appreciation rights	**120 755**	(33 556)
Cash flow from operations(1)	**10 869 480**	8 924 051

(1) Reclassification of 2016:
As part of the JSE proactive monitoring of financial statements, issuers were advised that classification of an item within the statement of cash flows, i.e. whether it relates to operating, financing, or investing activities, is equally important to users as the final net cash position. For this purpose, during the past year we have split the funding of our deposits and wholesale funding to reclassify the movement of bonds (subordinated debt and listed senior bonds) under financing activities and not under operating activities as previously disclosed.

The impact of this reclassification is presented as follows:

R'000	*2016 Restated*	*Reported previously*	*Impact*
Cash flow from operations	*8 924 051*	*8 384 139*	***539 912***
Cash flow from financing activities	*(1 702 860)*	*(1 162 948)*	***(539 912)***
Net increase in cash and cash equivalents	*7 221 191*	*7 221 191*	*–*

31. Income taxes paid

Balance at the beginning of the year	**(52 702)**	(37 635)
Income statement charge	**1 390 435**	1 224 036
Movement in deferred tax	**80 597**	58 661
Balance at the end of the year	**(30 341)**	52 702
Income tax paid	**1 387 989**	1 297 764

R'000	2017	2016

32. Dividends paid

Balance at the beginning of the year	7 787	8 773
Dividend declared during the year:		
Ordinary dividend	1 306 585	1 115 809
Preference dividend	15 719	16 064
Balance at the end of the year	(7 259)	(7 787)
Dividends paid	**1 322 832**	**1 132 859**

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	421 522	353 711
From one to five years	1 244 708	1 072 435
After five years	298 150	278 522
Total future cash flows	**1 964 380**	**1 704 668**
Straight-lining accrued	(113 997)	(89 184)
Future expenses	**1 850 383**	**1 615 484**
Sub-lease payments:		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	5 561	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	355	1 734
From one to five years	–	362
	355	2 096
Capital commitments – approved by the board		
Contracted for		
Property and equipment	196 414	346 647
Intangible assets	35 609	24 126
Not contracted for		
Property and equipment	923 647	701 586
Intangible assets	392 979	467 234
	1 548 649	1 539 593

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 Capitec Bank Holdings Limited up to a value not exceeding 20% (2016: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2016: 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 three to six years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE Limited prior to the date of allocation.

Number	2017	2016

35. Share incentive scheme (continued)

Options issued to employees of Capitec Bank Limited	2017	2016
Balance at the beginning of the year	868 487	710 429
Options granted	143 446	371 796
Options cancelled and/or lapsed	–	(5 939)
Options exercised	(49 224)	(207 799)
Balance at the end of the year	962 709	868 487

Share appreciation rights issued to employees of Capitec Bank Limited	2017	2016
Balance at the beginning of the year	511 938	756 802
Share appreciation rights granted	143 446	126 340
Share appreciation rights cancelled and/or lapsed	–	(5 939)
Share appreciation rights exercised	(52 837)	(365 265)
Balance at the end of the year	602 547	511 938

	2017		2016	
Analysis of outstanding share options by year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2015/2016	–	–	171.59	9 290
2016/2017	–	–	233.34	39 934
2017/2018	262.34	281 555	262.34	281 555
2018/2019	276.32	247 676	276.32	247 676
2019/2020	324.78	232 954	296.43	197 087
2020/2021	413.71	128 808	387.92	92 945
2021/2022	480.54	35 860	–	–
2022/2023	480.54	35 856	–	–
	317.55	962 709	285.20	868 487

Number	2017	2016
Treasury shares available from previous period	9 290	–
Shares purchased during the year	39 934	217 089
Shares utilised for settlement of options	(49 224)	(207 799)
Shares available for settlement of options	–	9 290
Settled in shares	(49 224)	(207 799)
Options exercised	(49 224)	(207 799)

Analysis of outstanding share appreciation rights by the year of maturity	2017 Weighted average strike price R	2017 Number	2016 Weighted average strike price R	2016 Number
Financial year				
2015/2016	–	–	141.57	31 403
2016/2017	–	–	103.16	21 434
2017/2018	136.45	181 958	136.45	181 958
2018/2019	131.04	148 077	131.04	148 077
2019/2020	199.66	133 353	96.31	97 486
2020/2021	255.53	67 443	0.01	31 580
2021/2022	480.54	35 860	–	–
2022/2023	480.54	35 856	–	–
	203.39	602 547	117.75	511 938

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 outstanding	Estimated value R'000	Expected vesting proportion(2) %	Fair value R'000	Portion of term expired %	Liability at year-end R'000
2011/2012	160.09	2017/2018	7.1	33 880	19 148	100.0	19 148	98.5	18 867
2012/2013	182.40	2017/2018	7.1	1 713	929	100.0	929	99.9	929
		2018/2019	7.0	1 714	937	100.0	937	83.3	780
	198.52	2017/2018	7.1	48 877	25 757	100.0	25 757	98.2	25 303
		2018/2019	7.0	48 877	26 000	100.0	26 000	81.8	21 267
2013/2014	201.40	2017/2018	7.1	37 500	19 654	100.0	19 654	97.8	19 221
		2018/2019	7.0	37 500	19 848	100.0	19 848	78.2	15 511
		2019/2020	7.2	37 500	20 042	100.0	20 042	65.1	13 043
	209.83	2017/2018	7.0	8 750	4 542	100.0	4 542	83.2	3 778
		2018/2019	7.1	8 750	4 590	100.0	4 590	66.5	3 054
		2019/2020	7.3	8 750	4 640	100.0	4 640	55.5	2 573
2014/2015	196.43	2017/2018	7.1	29 880	15 808	100.0	15 808	97.0	15 340
		2018/2019	7.0	29 885	15 955	100.0	15 955	72.6	11 578
		2019/2020	7.2	29 891	16 103	100.0	16 103	57.9	9 331
	253.82	2017/2018	7.0	28 000	13 359	100.0	13 359	77.5	10 355
		2018/2019	7.1	28 000	13 591	100.0	13 591	58.1	7 900
		2019/2020	7.3	28 000	13 831	100.0	13 831	46.5	6 430
2015/2016	371.88	2017/2018	7.1	84 080	29 819	100.0	29 819	95.6	28 514
		2018/2019	7.0	84 075	31 189	100.0	31 189	63.8	19 892
		2019/2020	7.2	84 071	32 600	100.0	32 600	47.8	15 597
		2020/2021	7.3	84 070	33 863	100.0	33 863	38.3	12 956
	539.88	2017/2018	7.0	8 875	1 829	100.0	1 829	66.3	1 212
		2018/2019	7.1	8 875	2 124	100.0	2 124	44.2	939
		2019/2020	7.3	8 875	2 401	100.0	2 401	33.2	796
		2020/2021	7.3	8 875	2 623	100.0	2 623	26.5	695
2016/2017	473.05	2019/2020	7.2	33 264	10 118	100.0	10 118	30.4	3 077
		2020/2021	7.3	33 260	10 874	100.0	10 874	22.8	2 479
		2021/2022	7.2	33 257	11 529	100.0	11 529	18.2	2 103
		2022/2023	7.3	33 253	12 161	100.0	12 161	15.2	1 848
	576.29	2019/2020	7.3	2 603	612	100.0	612	22.5	138
		2020/2021	7.3	2 603	688	100.0	688	16.8	116
		2021/2022	7.3	2 603	755	100.0	755	13.5	102
		2022/2023	7.4	2 603	816	100.0	816	11.2	92
Grand total				962 709	418 735	100.0	418 735	65.9	275 816

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

Dividend yield	*1.1%*
Volatility(4)	*24.1%*
Ex-dividend share price	*717.12*

(2) *Executive staff turnover of 0% p.a. (2016: 0%) 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 changes to the performance conditions relating to share options granted in 2016/2017. These performance conditions are the HEPS growth must exceed the Consumer Price Index (CPI) plus the percentage growth in GDP plus 4%, and the attained ROE must out perform the average ROE of the four traditional banks in South Africa. Each performance condition carries a weighting of 50%, and is measured over a cumulative three year performance period. The assumption that both of the above performance conditions would be met was used to estimate the likelihood of these vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

(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 R[(3)]	Year maturing[(4)]	Risk-free rate %	Number of share appreciation rights outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[(2)] %	Liability at year-end R'000
2011/2012	160.09	2017/2018	7.1	33 880	19 148	98.5	100.0	18 867
2012/2013	182.40	2017/2018	7.1	1 713	929	99.9	100.0	929
		2018/2019	7.0	1 714	937	83.3	100.0	780
	198.52	2017/2018	7.1	48 877	25 757	98.2	100.0	25 303
		2018/2019	7.0	48 877	26 000	81.8	100.0	21 267
2013/2014	201.40	2017/2018	7.1	37 500	19 654	97.8	100.0	19 221
		2018/2019	7.0	37 500	19 848	78.2	100.0	15 511
		2019/2020	7.2	37 500	20 042	65.1	100.0	13 043
	209.83	2017/2018	7.0	8 750	4 542	83.2	100.0	3 778
		2018/2019	7.1	8 750	4 590	66.5	100.0	3 054
		2019/2020	7.3	8 750	4 640	55.5	100.0	2 573
2014/2015	0.01	2017/2018	7.1	10 147	7 349	97.0	100.0	7 132
		2017/2018	7.0	9 500	6 836	77.5	100.0	5 299
		2018/2019	7.0	10 149	7 270	72.6	100.0	5 275
		2018/2019	7.1	9 500	6 761	58.1	100.0	3 930
		2019/2020	7.2	10 154	7 194	57.9	100.0	4 169
		2019/2020	7.3	9 500	6 687	46.5	100.0	3 109
2015/2016	0.01	2017/2018	7.1	28 591	20 708	95.6	100.0	19 802
		2017/2018	7.0	3 000	2 159	66.3	100.0	1 431
		2018/2019	7.0	28 587	20 478	63.8	100.0	13 060
		2018/2019	7.1	3 000	2 135	44.2	100.0	944
		2019/2020	7.2	28 582	20 250	47.8	100.0	9 688
		2019/2020	7.3	3 000	2 112	33.2	100.0	700
		2020/2021	7.3	28 580	20 025	38.3	100.0	7 662
		2020/2021	7.3	3 000	2 088	26.5	100.0	554
2016/2017	473.05	2019/2020	7.2	33 264	10 118	30.4	100.0	3 077
		2020/2021	7.3	33 260	10 874	22.8	100.0	2 479
		2021/2022	7.2	33 257	11 529	18.2	100.0	2 103
		2022/2023	7.3	33 253	12 161	15.2	100.0	1 848
	576.29	2019/2020	7.3	2 603	612	22.5	100.0	138
		2020/2021	7.3	2 603	688	16.8	100.0	116
		2021/2022	7.3	2 603	755	13.5	100.0	102
		2022/2023	7.4	2 603	816	11.2	100.0	92
Grand total				602 547	325 693	66.6	100.0	217 033
Note								16

37. Share appreciation right (continued)

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

Dividend yield	*1.1%*
Volatility (5)	*24.1%*
ex dividend share price	*717.12*

(2) *Executive staff turnover of 0% p.a. (2016: 0%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 is done on an annual basis.*

(3) *As from the 2017 financial year:*
SARs are granted at a strike price equal to the 30 day weighted average share price up to and including the day before the resolution granting the respective SARs was passed.
There is a fixed ratio between the number of SARs and share options granted.

(4) *The remuneration committee approved changes to the performance conditions relating to share appreciation rights granted in 2016/2017. These performance conditions are the HEPS growth must exceed the Consumer Price Index (CPI) plus the percentage growth in GDP plus 4%, and the attained ROE must outperform the average ROE of the four traditional banks in South Africa. Each performance condition carries a weighting of 50%, and is measured over a cumulative three year performance period.*

(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	Fair values Liabilities
2017			
Forward foreign exchange contracts			
Notional amounts in ZAR	**74 986**	**–**	**17 974**
Notional amounts in USD	**4 225**	**–**	**–**
2016			
Forward foreign exchange contracts			
Notional amounts in ZAR	–	–	–
Notional amounts in USD	–	–	–

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 R75 million (2016: Rnil).

39. Derivative financial instruments: Cash flow hedges

R'000	Notional amount USD	Notional amount ZAR	Fair values Assets	Fair values Liabilities
2017				
Interest rate swaps	**–**	**3 896 000**	**(7 038)**	**27 624**
Cross currency interest rate swaps	**30 000**	**343 500**	**(51 074)**	**–**
Net	**30 000**	**4 239 500**	**(58 112)**	**27 624**
2016				
Interest rate swaps	–	4 026 349	(78 090)	–
Cross currency interest rate swaps	30 000	343 500	(147 313)	–
Net	30 000	4 369 849	(225 403)	–

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
2017					
Discounted swap cash flows	**(226)**	**2 097**	**7 498**	**11 217**	**20 586**
Discounted cross currency interest rate swap cash flows	**–**	**4 988**	**(56 062)**	**–**	**(51 074)**
Net	**(226)**	**7 085**	**(48 564)**	**11 217**	**(30 488)**
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)

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.

39. Derivative financial instruments: Cash flow hedges (continued)

At 28 February 2017, the fixed interest rates were between 6.355% and 12.17% (2016: 5.21% and 12.17%) and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 28 February 2017.

The fair value adjustment transferred to the income statement amounted to a cost of R107.9 million (2016: R111.2 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 2017 and 2016. There were no transactions for which cash flow hedge accounting had to be discontinued in 2017 and 2016 as a result of highly probable cash flow no longer being expected to occur.

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

Year ended 28 February 2017

Holder	Instrument held	Amount held R'000	Holding %[1]
Standard Chartered Bank (London) Limited	Wholesale	541 474	65.70%
Sanlam Life Insurance Limited	Wholesale	175 230	21.3%
Channel Life Limited	Wholesale	75 032	9.1%
Stanlib Income Fund	Subordinated unlisted bond	391 897	51.8%
Liberty Group Limited	Subordinated unlisted bond	81 433	10.8%
Credit Partners 1 Lp	Subordinated unlisted bond	44 415	5.9%
Sanlam Life Insurance Limited	Listed senior bond	450 289	14.2%
Channel Life Limited	Listed senior bond	200 067	6.3%
Stanlib Income Fund	Listed senior bond	194 829	6.1%
PSG Balanced Fund	Listed senior bond	167 843	5.3%
Prudential Corporate Bond Fund	Listed senior bond	165 127	5.2%
Old Mutual Specialised Finance Offshore Fund	Subordinated listed bond	335 903	17.4%
Investec Corporate Bond Fund	Subordinated listed bond	309 282	16.0%
Nedgroup Investments Flexible Income Fund	Subordinated listed bond	158 462	8.2%
Old Mutual Life Assurance Company (South Africa) Limited	Other unlisted negotiable instruments	109 237	12.6%
Sanlam Investment Management (Pty) Ltd	Other unlisted negotiable instruments	102 759	11.9%
PSG Balanced Fund	Other unlisted negotiable instruments	85 321	9.9%
PSG Money Market Fund	Other unlisted negotiable instruments	78 638	9.1%
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	75 098	8.7%

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

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	Annual report
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement

Acronym	Description
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
IRM	Integrated risk management
ISMS	Information security management system
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	The 2009 King Report on Corporate Governance
LCR	Liquidity coverage ratio
LDT	Last day of trade
LRP	Liquidity recovery plan
LSM	Living standards measure
Moody's	Moody's Investors Services Inc.
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, 2005
NCD	Negotiable Certificate of Deposit
NCR	National Credit Regulator
NSFR	Net stable funding ratio
OCR	Optical character recognition
PASA	Payments Association of South Africa
PD	Probability of default
POCA	Prevention of Organised Crime Act, 1998
Polproc	Policies and procedures department
POS	Point-of-Sale Merchant
PwC	Pricewaterhouse Coopers Inc.
RCMC	Risk and capital management committee
REMCO	Human resources and remuneration committee
RISCO	Risk committee
ROE	Return on equity
SAMOS	South African Multiple Options Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Services
SARs	Share Appreciation Rights
Stats SA	Statistics South Africa
T2	Tier 2
The group	Capitec Bank Holdings Limited and subsidiaries
VWAP	Volume weighted average price
WACC	Weighted Average Cost of Capital

Administration and addresses

Capitec Bank Limited

Registration number

1980/003695/06

Auditors

PricewaterhouseCoopers Inc.

Directors

AP du Plessis (Chief financial officer)
MS du Pré le Roux (Retired as chairman on 27 May 2016)
GM Fourie (Chief executive officer)
RJ Huntley (Ms) (resigned on 21 September 2016)
NS Mashiya (Executive: Risk management)
JD McKenzie
NS Mjoli-Mncube
PJ Mouton
CA Otto
G Pretorius (Retired on 27 May 2016)
R Stassen (Appointed as chairman on 27 May 2016)
JP Verster

Secretary

YM Mouton

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