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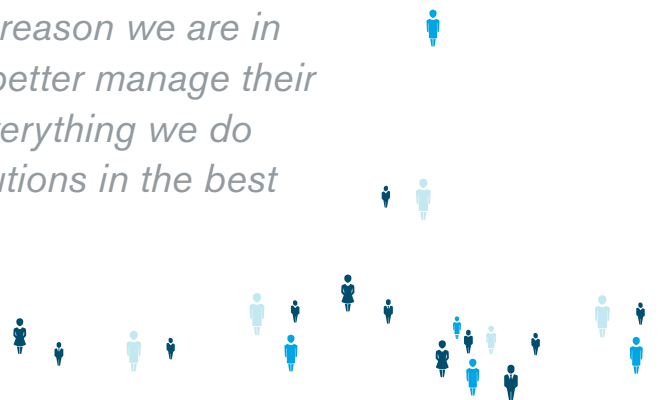
CAPITEC
BANK
HOLDINGS LIMITED

Integrated Annual Report 2015

People – is what banking is all about

Retail banking is about people.

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



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2015



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What is Capitec's approach to integrated reporting?

Capitec's directors present the integrated annual report for 2015. The report reflects the value creation of the business drivers for all stakeholders and the measures in place to ensure the sustainability of business operations into the future.



Capitec's approach

As a bank, numbers are important. Numbers are, however, only part of the story. This integrated report tells of our success to date and why we are more than just a bank.

This report was compiled utilising the guidance in King III, the GRI sustainability reporting guidelines and the IIRC framework for integrated reporting. Lengthy standard disclosures have been purposely avoided to ensure that it remains relevant to Capitec and its shareholders, who are the principal stakeholders.

The purpose of this report is to provide simple, transparent feedback to stakeholders regarding the organisation's strategy, performance, governance and prospects. This ensures that shareholders, as well as other stakeholders, can formulate a view on the long-term returns and sustainability of the group. It is concise and aims to provide stakeholders with an overview of the economic and social impact of the business operations, the material issues affecting the organisation and the manner in which these are addressed. Materiality is dependent on the responsiveness of stakeholders, especially shareholders, and determining material matters is a continuous process. The drivers of value creation, how much value is delivered and external factors affecting the ability to deliver value are questions in identifying material matters. All reports submitted to the board and executive management for discussion, any stakeholder feedback, key risk factors and strategic objectives are considered in the materiality determination process.

An overarching objective of the business is sustainable profit, and our approach is reflected throughout this report. Sustainability is achieved through the interconnectivity and interdependence of the six capitals as defined in the IIRC framework (refer page 13).

Integrated reporting journey

The journey starts and ends with our board that is supported by the integrated reporting project team. The project team is a collaboration of various departments' contributors who understand and respond to the needs, interest and expectations of stakeholders.

Scope and boundary

This report encompasses Capitec's operations, which are conducted exclusively within South Africa, and covers the period from 1 March 2014 to 28 February 2015. Integrated reports are prepared on an annual basis and all reports published are available at www.capitecbank.co.za.

Capitec is a bank controlling company that is listed on the Johannesburg Stock Exchange. Capitec Bank, a wholly owned subsidiary, is the company in which all material operations are housed. It contributed 96% of Capitec's profit for the financial year ended 28 February 2015 (2014: 99%) and as such it is the focus of this report. There has been no material change to the products and services it offers since the publication of the previous report. The subsidiaries are listed in chapter 2, which briefly describes their activities and contribution to Capitec's financial position and results.

Governance and assurance

This report was prepared in accordance with the Companies Act and Banks Act of South Africa, the JSE Listings Requirements, the King III code and IFRS. The board of directors believes that it adequately addresses the material issues faced by Capitec and approved it on 23 March 2015.

Assurance regarding the annual financial statements is provided by the independent auditor's report contained herein. Where considered appropriate, external sources have been used to provide independent information for elements of the integrated report other than the financial statements.

Enquiries

Enquiries regarding the content of this report can be forwarded to the company secretary by the following methods:

E-mail: enquiries@capitecbank.co.za

Post: PO Box 12451, Die Boord, Stellenbosch, 7600

Telephone: +27 (0)21 809 5900



What does Capitec look like?

Capitec's share ownership
and group structure are
depicted below.

Board of directors

15.4%

(2014: 17.3%)

Executive management committee

2.6%

(2014: 2.6%)

PSG Group

30.7%

(2014: 28.3%)

Direct black ownership*

8.7%

(2014: 11.5%)

Free float

42.6%

(2014: 40.3%)

* Refer page 110 for details regarding indirect black ownership.

Capitec Bank Holdings Limited

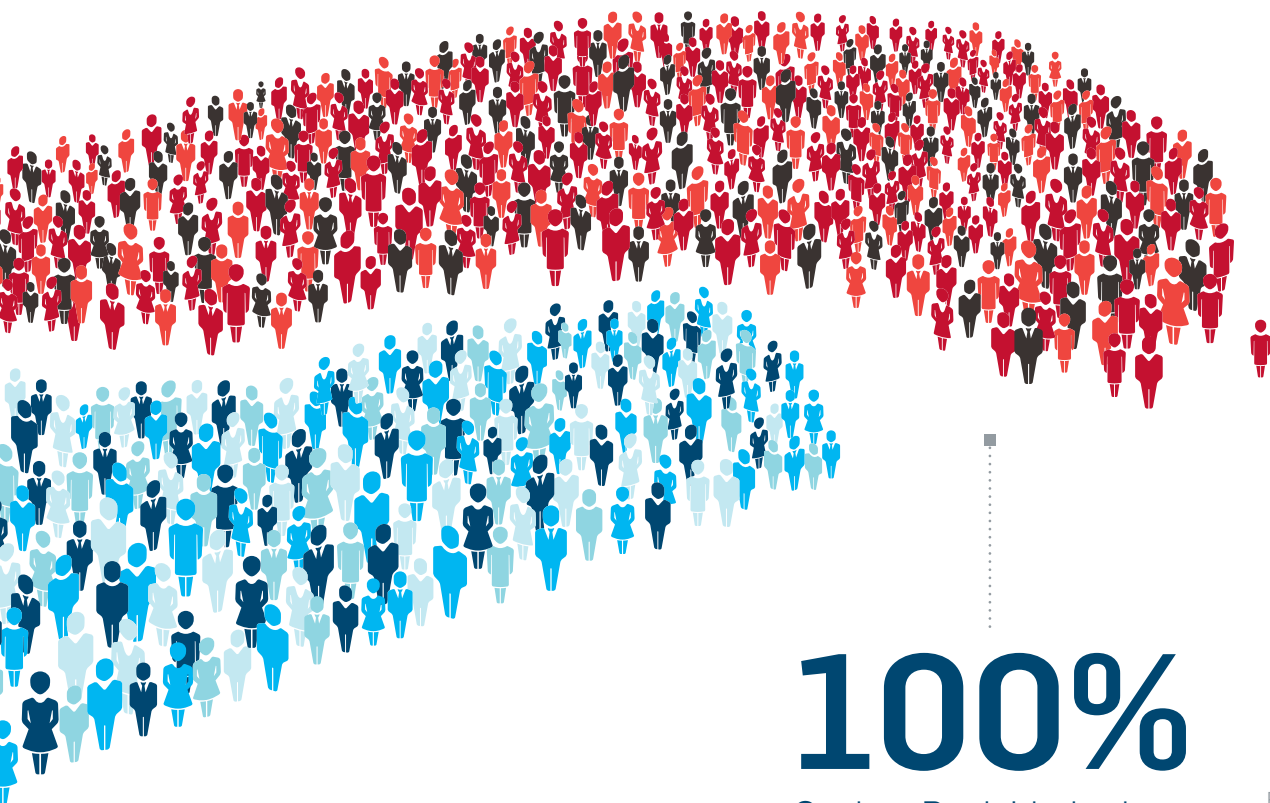
1999/025903/06

Registered bank controlling company

Incorporated in RSA

Listed on the JSE – Banks sector (since 2002)

Summary of governance structure pages 69 – 74

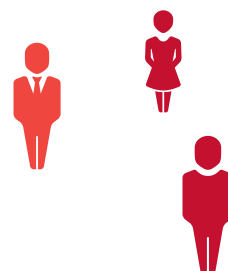


100%

Capitec Bank Limited
1980/003695/06

Retail Bank
Incorporated in RSA
www.capitecbank.co.za

Products	Transacting	
	Saving	For individuals
	Credit	
Clients	6.2m	(2014: 5.4m)
Branches	668	(2014: 629)
Employees	10 261	(2014: 9 070)
Revenue	R15.7bn	(2014: R13.5bn)
Profit after tax	R2.6bn	(2014: R2.0bn)
Total assets	R53.9bn	(2014: R46.2bn)
Funding	Ordinary equity: R11.4bn	(2014: R9.7bn)
	Debt: R42.4bn	(2014: R36.2bn)



100%

Capitec Properties
Proprietary Limited

1998/007658/07
Property holding company
Incorporated in RSA

100%

Dormant companies

Incorporated in RSA
Keymatrix Proprietary Limited
1999/010617/07
Keynes Rational Corporate
Services Proprietary Limited
1999/014817/07

What are the key performance indicators?

03

Financial highlights
Stakeholder highlights
Key performance indicators

Financial highlights

Headline earnings (million)

R2 547

2015

R2 017

2014

R1 584

2013

Headline earnings
per share (cents)

2 209

2015

1 752

2014

1 519

2013

Return on ordinary
shareholders' equity

25%

2015

23%

2014

27%

2013

Net transaction fee
income (million)

R2 608

2015

R1 927

2014

R1 349

2013

Cost-to-income ratio

35%

2015

32%

2014

38%

2013





Stakeholder highlights

Employees



99
average appointments
per month

6 029
face-to-face learning
interventions

30 657
distance learning
activities completed

Clients



856 000
new active clients

2.8m
new loans

39
new branches

500
additional ATMs

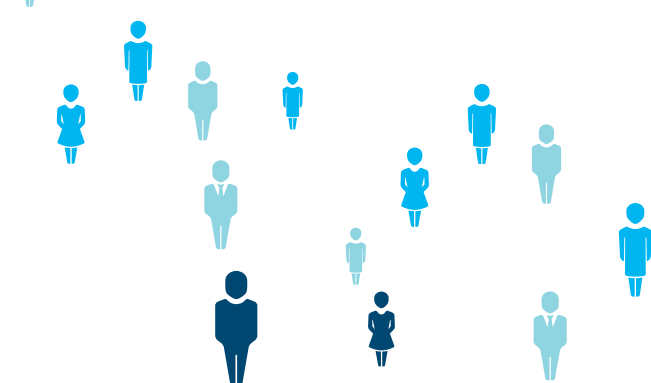
Shareholders



R2.56bn
net profit

836c
total dividend per share

R11.6bn
shareholder funds



Key performance indicators

		2015	2014	Change %	2013	2012
Profitability						
Interest income	R'm	10 783	9 434	14	7 085	4 347
Net loan fee income	R'm	619	841	(26)	1 153	1 471
Gross loan income	R'm	11 402	10 275	11	8 238	5 818
Net transaction fee income	R'm	2 608	1 927	35	1 349	836
Interest paid	R'm	(2 426)	(2 133)	14	(1 663)	(1 022)
Other banking income	R'm	22	(19)		–	14
Income from banking operations	R'm	11 606	10 050	15	7 924	5 645
Net loan impairment expense	R'm	(4 014)	(3 976)	1	(2 659)	(1 604)
Net banking income	R'm	7 592	6 074	25	5 265	4 041
Banking operating expense	R'm	(4 031)	(3 242)	24	(2 994)	(2 486)
Non-banking operations	R'm	(1)	2		7	3
Tax	R'm	(995)	(797)	25	(673)	(464)
Preference dividend	R'm	(18)	(20)	(10)	(21)	(19)
Earnings attributable to ordinary shareholders						
• Basic	R'm	2 547	2 017	26	1 584	1 075
• Headline	R'm	2 547	2 017	26	1 584	1 078
Net transaction fee income to banking operating expenses	%	65	59		45	34
Net transaction fee income to net banking income	%	34	32		26	21
Cost-to-income ratio – banking activities	%	35	32		38	44
Return on ordinary shareholders' equity	%	25	23		27	29
Earnings per share						
• Attributable	cents	2 209	1 752	26	1 519	1 122
• Headline	cents	2 209	1 752	26	1 519	1 125
• Diluted attributable	cents	2 206	1 740	27	1 498	1 096
• Diluted headline	cents	2 206	1 740	27	1 498	1 099
Dividends per share						
• Interim	cents	246	203	21	169	125
• Final	cents	590	460	28	405	300
• Total	cents	836	663	26	574	425
Dividend cover	x	2.6	2.6		2.6	2.6
Assets						
Net loans and advances	R'm	32 484	30 053	8	27 935	16 863
Cash, cash equivalents and other liquid assets	R'm	19 755	14 423	37	9 166	5 750
Other	R'm	1 677	1 715	(2)	1 246	1 009
Total assets	R'm	53 916	46 191	17	38 347	23 622
Liabilities						
Deposits	R'm	41 181	35 449	16	29 000	17 692
Other	R'm	1 172	760	54	834	744
Total liabilities	R'm	42 353	36 209	17	29 834	18 436
Equity						
Shareholders' funds	R'm	11 564	9 982	16	8 513	5 185
Capital adequacy ratio	%	36	39		41	39
Net asset value per ordinary share	cents	9 822	8 433	16	7 212	4 962

		2015	2014	Change %	2013	2012
Share price	cents	41 000	18 375	123	18 800	18 500
Market capitalisation	R'm	47 407	21 186	124	21 515	18 367
Number of shares in issue	'000	115 627	115 298	–	114 442	99 282
Share options						
• Number outstanding	'000	710	1 503	(53)	2 177	3 087
• Number outstanding to shares in issue	%	0.6	1.3		2	3.1
• Average strike price	cents	19 403	9 465	105	6 294	4 358
• Average time to maturity	months	28	16	75	15	16
Operations						
Branches		668	629	6	560	507
Employees		10 261	9 070	13	8 308	7 194
Active clients	'000	6 244	5 388	16	4 677	3 706
ATMs						
• Own		941	744	26	640	550
• Partnership		2 477	2 174	14	1 914	1 526
• Total		3 418	2 918	17	2 554	2 076
Capital expenditure	R'm	414	549	(25)	473	381
Sales						
Value of loans advanced	R'm	19 417	18 214	7	25 401	19 393
Number of loans advanced	'000	2 820	3 034	(7)	3 760	4 648
Average loan amount	R	6 887	6 003	15	6 756	4 172
Repayments	R'm	23 787	21 862	9	19 159	16 173
Gross loans and advances	R'm	36 341	33 690	8	30 658	18 408
Loans past due (arrears)	R'm	1 964	2 174	(10)	1 777	932
Arrears to gross loans and advances	%	5.4	6.5		5.8	5.1
Arrears and arrears subsequently rescheduled and now current in the past 6 months	R'm	2 848	2 921	(3)	2 402	
Arrears and arrears subsequently rescheduled and now current in the past 6 months to gross loans and advances	%	7.8	8.7		7.8	
Provision for doubtful debts	R'm	3 857	3 637	6	2 723	1 545
Provision for doubtful debts to gross loans and advances	%	10.6	10.8		8.9	8.4
Arrears coverage ratio	%	196	167		153	166
Loan revenue	R'm	10 660	9 841	8	7 983	5 660
Loan revenue to average gross loans and advances	%	30.4	30.6		32.5	38.6
Gross loan impairment expense	R'm	4 616	4 410	5	2 932	1 780
Recoveries	R'm	602	434	39	273	176
Net loan impairment expense	R'm	4 014	3 976	1	2 659	1 604
Net impairment expense to loan revenue	%	37.7	40.4		33.3	28.3
Net impairment to average gross loans and advances	%	11.5	12.4		10.8	10.9
Deposits						
Wholesale deposits	R'm	10 913	11 663	(6)	11 679	7 162
Retail call savings	R'm	19 298	14 617	32	10 335	6 348
Retail fixed savings	R'm	10 731	8 984	19	6 844	4 015

What value does Capitec create?

*Capitec's overarching
objective is to create
sustainable growth in profit
and performance.*

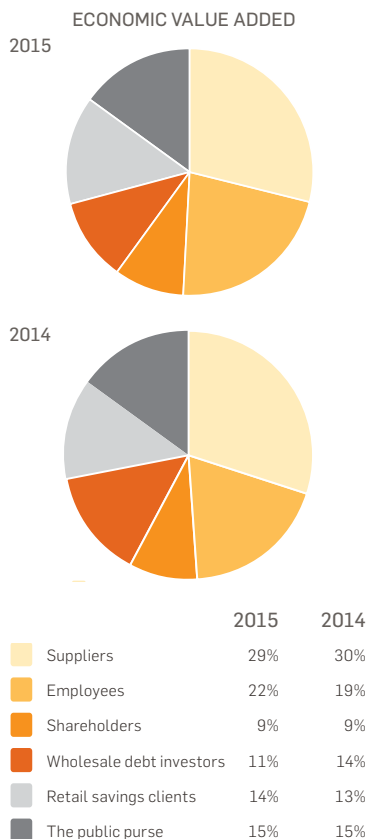




Resources and relationships

Various resources and relationships – also referred to as capitals in the ('IIRF') – facilitate the continued success and performance of Capitec. These resources and relationships validate our business model, sustain the business and enable growth. Resources and relationships have been grouped according to their connection to the organisation and can be summarised as follows:

IIRF classification of capitals	Description	Focus area through Capitec's lens	Page
Financial	The pool of funds obtained through financing available for use by Capitec	Key performance indicators	10
		Annual financial statements	114
		Funding and liquidity risk	87
		Capital management	89
Manufactured	Manufactured, physical objects available for the provision of our service	Information technology infrastructure and support	96
		Branch network	22
Intellectual	Capitec-specific, knowledge-based intangibles	Capitec Bank as a top brand	21
		Service excellence emphasis and technology supporting this focus	21
		Reputation risk	77
		Compliance risk	95
Human	People's competencies, capabilities and experience and their ability to motivate and innovate	Governance	69
		Focused leadership	62
		Employees	23
Social and relationship	The relationships between Capitec, communities and stakeholders	Stakeholder engagement	14
		Competition and market share	34
		Suppliers	110
Natural	Renewable and non-renewable environmental resources used in the prosperity of Capitec	The environment, including our carbon footprint	110



Stakeholder engagement

Continued engagement ensures that Capitec remains relevant in the market and to society as a whole. Effort is made to understand and address the expectations of stakeholders to facilitate enduring relationships. All stakeholder groups have an interest in the creation of sustainable value.

Clients

Simplicity is the ultimate sophistication

Feedback from regular contact with clients is regarded as an opportunity to review our ability to differentiate our offer and to evaluate the quality of service experienced by clients.

How we engage

- Face to face in branches
- Client surveys
- SMS communication
- Internet communication
- Client helpline
- Complaint evaluation via the call centre
- Formal market research
- Learning from conversations in social media
- Marketing and advertising

2015 Capitec footprint

- 856 000 new active clients
- 39 new branches
- 500 new ATMs
- R19 billion loans advanced
- Ask Africa Orange Index best service company in the banking industry for 2014/2015

Targets

- Grow primary banking clients
- Continue growing branch network
- Increase accessibility through mobile banking units and additional ATMs
- Manage expenses and pass cost savings to clients

Material issues and our response

Banking costs

Application of the principle 'know what you get, know what you pay'	
Simplified transparent pricing	22
Monthly SMS confirming bank costs	
Minimal transaction price increases	22
Continuous reduction of the cost of credit	22

Service delivery

Management monitoring of service delivery	
Service system	23
Branch managers are custodians of client relationships	23
Recruiting talented employees	23 – 24
Training and development	25 – 27

Accessibility

Distribution expansion and new service channels	22, 107
Enhanced product offer	22
Branches in rural areas	107
Mobile banking units	107
Local employees fluent in language of the community	107

Fraud

Financial crime prevention	96
Enhanced internet banking security	96

Investors, analysts and rating agencies

Responsible returns

Investors comprise a mixture of retail depositors, shareholders, bond holders and other debt funders that facilitate continued growth in business operations and the maintenance of capital adequacy. Analysts are an important means of communication between Capitec and the investment and funding market, and the ratings assigned to Capitec Bank by rating agencies play a role in the availability and pricing of funding for operations and growth. These stakeholders expect a secure, stable organisation that offers sustainable returns and capital growth.

How we engage

- Prompt results announcements
- Quarterly capital adequacy updates
- JSE news service (SENS)
- Financial results presentations and roadshows
- Integrated annual report
- Annual general meeting
- Electronic enquiry channel
- Ratings updates by credit agencies

2015 Capitec footprint

- Net profit up 26%
- R1.4 billion interest paid – retail deposits
- R1.02 billion interest paid – wholesale deposits
- 836c ordinary dividend per share

Targets

- Maintain ROE
 - Retain sound dividend returns
 - NSFR of 100% by 2018
 - LCR of 100% by 2018
- ... ■ Already achieved in 2013, 2014 and 2015

Material issues and our response Page

Impact of global and domestic economic conditions

Continuous review of economic conditions and consideration of the impact on Capitec	28 – 30
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Health of the unsecured lending market

Continuous monitoring of the unsecured credit market	31 – 32
Stringent credit risk management and proactive amendments to credit granting criteria	44, 46

The regulatory environment

Regulation	33, 41, 57
Prioritisation of statutory compliance	97
Sound capital management	90
Sound relationships with regulators	95

Competition

In-depth monitoring of the competitive landscape	34
Differentiation through unique product, positioning, pricing and service	22 – 23

Quality of the loan book

Constant detailed analysis of loan book quality by credit decision support to ensure that we remain within our risk appetite and can proactively manage the loan book	46, 78 and note 7
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Availability of funding for growth

Conservative management of liquidity risk and focus on funding by management

Employees

Employer of choice

Capitec Bank's unique service approach originates from inside the organisational culture and forms part of the employee experience from first contact to well after retirement. Employees are valued for their unique potential and talent as they represent the face of the business. Capitec Bank's identity is that of a diverse family that finds relevance in serving its diverse client base.

How we engage

- Human resources helpdesk
- Employment equity forum
- Web-based employee portal and electronic communications (C.Net and C.Connect)
- Learning and development programmes
- Performance management process
- Face-to-face interactions with senior management

2015 Capitec footprint

- 10 261 permanent employees
- 36 686 learning interventions
- 1 251 internal promotions

Targets

- Service oriented employees
- Maintain status as employer of choice

<i>Material issues and our response</i>	<i>Page</i>
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Market-related remuneration	
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Responsible remuneration practices	98
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Transformation and a pleasant working environment	
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Employment equity forum	26
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Employee relations management	26
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Appropriate policies and procedures	26
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Job security and personal development	
--	--

Talent management initiative	25
------------------------------	----

Learning and development programmes	25
-------------------------------------	----

Bursaries for further education	25
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Society

More than a bank

Capitec Bank provides for the basic banking needs of the consumer and its business model promotes the economic welfare of the communities in which it operates. Our leadership recognises that we have an important role to play in the development of those communities and society in general.

How we engage

- Client interaction
- Financial literacy programmes
- Interventions at schools
- Partnerships with, and support of, community-based organisations
- CS Investments
- Interactions with suppliers

2015 Capitec footprint

- Eight CSI initiatives
- Local procurement from B-BBEE suppliers of 83%
- 2.74 CO₂e tonnes emissions per full-time employee

Targets

- Maintain accessible and affordable banking facilities
- Commitment to equal employment opportunities
- Remain a low contributor to GHG emissions

<i>Material issues and our response</i>	<i>Page</i>
Community development and upliftment	
Commitment to social development	109
Provision of employment opportunities and training	25 – 27
Supplier opportunities	
B-BBEE criteria included in supplier evaluation	110
Simplified money management	
Accessibility to everyday banking facilities at affordable prices	22
Access to credit at affordable prices	22
Responsible credit granting policy	78
Environmental impact	
Formulation and implementation of environmental objectives	110 – 112

Government and regulators

Transparency is key

Compliance with government and regulatory requirements contributes to the creation of a healthy banking system and credit market in South Africa. A good relationship with government and regulators gives Capitec Bank the opportunity to provide input on policies and regulations that may affect its operations.

Capitec Bank participates in the following industry bodies:

- BASA
- CPA
- PASA

Interaction with the following government and regulatory bodies takes place regularly:

- JSE
- National Treasury department
- NCR
- SARB
- SARS

How we engage

- Participation in banking industry and related bodies
- Presentations and feedback sessions
- Submission of required returns
- Written responses as part of consultations
- Face-to-face discussion
- Regulator surveillance

2015 Capitec footprint

- Strong capital and liquidity ratios
- R1.4 billion paid in direct, indirect and employees tax
- Impact feedback provided on revisions to the National Credit Act

Targets

- Timeous responses to regulators' queries
- Maintain solid relationships with regulators
- Remain transparent in dealings with government and regulators

Material issues and our response *Page*

Compliance with relevant legislation and regulations

Prioritisation of statutory compliance	95
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Health and stability of the South African financial system

Sound capital management	90
Effective management of material risks	76
Sound liquidity management	87

Transformation

Compliance with employment equity legislation	26 – 27
Focus on B-BBEE objectives	110
Sound remuneration practices	98

Health of unsecured credit industry

Continuous monitoring of levels of indebtedness among consumers	79
Continuous alignment of credit granting policies with consumer credit health	78
Participation in industry bodies in conjunction with other industry players to address industry issues	81

Economic value added

Capitec Bank contributes value to the local economy and creates wealth for its stakeholders as reflected below:

	2015 R'000	2014 R'000
Direct economic value generated		
Interest income	10 782 229	9 432 796
Loan fee income	1 245 881	1 306 619
Transaction fee income	3 672 711	2 786 393
Dividend income	–	7
Net movement in financial instruments held at fair value through profit or loss	21 271	(19 083)
Other income	305	279
(Loss)/Income from associates	(886)	1 683
Net impairment charge on loans and advances to clients	(4 014 085)	(3 976 170)
	11 707 426	9 532 524
Economic value distributed		
To suppliers in payment of operating expenses	2 856 774	2 395 676
To employees	2 095 526	1 499 101
Ordinary dividends	813 838	698 458
Preference dividends	17 510	20 420
Interest paid to providers of wholesale funding	1 021 181	1 079 524
Interest paid to savings clients	1 404 521	1 053 194
To providers of funds	3 257 050	2 851 596
Normal tax	1 079 852	800 875
Value added tax	361 005	311 433
Unemployment insurance	11 611	10 594
Skills development levies	15 973	16 709
Property rates and taxes	8 387	6 293
	1 476 828	1 145 904
To the community	5 111	2 245
	9 691 289	7 894 522
Economic value retained for expansion and growth		
Retained income	1 732 251	1 318 676
Depreciation and amortisation	367 947	324 958
Deferred tax	(84 061)	(5 632)
	2 016 137	1 638 002

What is the context in which Capitec operates?

A unique retail bank that provides money management solutions for individuals.



Simplicity, **our brand essence**, delivered transparently gives clients control.



Clients remain the focus

Capitec was established to provide essential banking services to all South Africans. It conducts its operations through Capitec Bank, a retail bank that has changed the landscape of South African banking and is empowering South Africans financially. Capitec was incorporated in South Africa on 23 November 1999, registered as a bank controlling company on 29 June 2001, and was listed on the JSE on 18 February 2002. Its corporate structure is detailed in chapter 2 of this report.

A pioneering approach to service delivery

Transacting (receiving and paying money), saving money in times of surpluses and borrowing money in times of shortages form the core of the bank offer. At Capitec Bank, it is all about the pioneering way in which these services are delivered, together with the information support provided to the client, that makes our product offering a money management solution rather than another retail banking product. The bank has innovatively developed these solutions with four key building blocks in mind when addressing individual client needs, namely affordability, accessibility, personal service and simplicity.

Money management solutions are delivered and communicated in a transparent manner to ensure that clients understand their options, make the best choices and feel in control of their financial lives.

The singular focus on retail banking and the innovative application of the building blocks across everything the bank has developed, make it unique as a service provider in this industry. This is evident in the various service-excellence and top-brand accolades received since inception.

AWARDS

Winner of the Ask Africa Orange Index best service company in the financial services industry for 2014/2015 and third across all industries. This is the third time in the past five years this accolade has been awarded and the first time to be rated among the top three service companies overall.

Highest rated bank brand for customer satisfaction in the South African Customer Satisfaction Index for the third year in a row.

Winner of the Business Times Intellidex Bank of the Year survey.

Capitec Bank named as **one of the World Economic Forum's 16 Global Growth Companies** in Africa.

Our Internet Banking platform was the winner of **Columinate's 2014 Internet Banking SITEisfaction survey**. This was the first year of our inclusion in the survey.

Delivering personal empowerment

This translates into a unique experience for the individual that is centered on ease of use and personal empowerment. The Capitec Bank service experience is delivered in every aspect of the branch interaction, from entering and queuing, to the design of the products, format of the pricing and side-by-side support offered by consultants.

Unique product offer

A convenient, simplified money management solution

The bank's unique Global One product suite is customisable and offers single-point access to transacting, saving and credit. Global One is used by clients as the core transaction facility for their cash management needs and interest is earned from the first rand deposited, with the bank paying 4.4% interest on a positive balance in the account.

The suite of accounts can be accessed by debit card, a cellphone or any work station or tablet using internet banking. Accounts can also be accessed in the branch by debit card, pin and biometric fingerprint verification. This removes the need for any time-consuming application or transaction forms.

Personalised savings options

The savings platform is open-ended with no restrictions to the features in each account. Clients can choose up to four savings accounts and can structure the accounts as they wish. This includes the deposit amounts preferred, whether the deposits are fixed and the terms of each savings option.

Customised credit

The credit platform calculates the maximum loan value and term based on affordability and client behaviour, but clients select the exact loan amount, term and repayment amounts that suit them. Credit is available up to an amount of R200 000, with a maximum term of 84 months. The implementation of strict credit scoring endeavours to prevent the over-extension of clients.

Simplified, transparent pricing

The Global One transaction account and all ancillary accounts attract a monthly administration fee of R5.00. Prices are fixed per transaction, regardless of the value, except for cash deposit fees which are fixed per R100. This approach leaves clients with no uncertainty as to the total monthly bank costs that will be incurred. Capitec Bank's continued commitment to low-cost banking is reflected in the annual changes to transacting fees.

Our commitment to low-cost banking

Our fees remain low. In general we have only increased these with an inflation adjustment. However, to encourage clients to migrate to cheaper electronic transactions, fees for cash transactions were increased at above inflation rates and electronic transactions at below inflation rates. Fee adjustments reflect our principle of simplicity. Fees are increased to round numbers where possible, to simplify pricing.

SMSs are delivered on every transaction above the client-defined limit if requested and month-end messaging provides balances, fees incurred and interest paid to the client, to promote an awareness of banking costs.

Unique positioning

Capitec Bank's multichannel distribution network provides clients with various solutions to meet their needs.

Branches carefully sited for accessibility

The branch network has expanded by 39 to 668 branches. Branches are positioned in areas that make it convenient for clients to conduct their banking in the normal course of their daily activities. The branch is structured in a modern, open, and accessible manner, with no barriers, which makes clients feel welcome and at ease. The careful selection of sites, including shopping centres frequented by consumers, has ensured a steady client acquisition.

Branch hours

Weekdays	08:00 – 17:00
Saturdays	08:00 – 13:00
Sundays	09:00 – 13:00

Non-branch solutions for added convenience

The ATM network has expanded to 941 own ATMs and 2 477 ATMs operated in partnership. In addition, clients can make low-cost cash withdrawals at a number of retailers such as Checkers, Shoprite and Pick n Pay that provide a cash back at point-of-sale (POS) service. This option multiplies the number of cash access points available to clients.

Anywhere, anytime banking

Internet and mobile banking are available to clients at no extra cost. These channels attract younger, higher-income clients who prefer the convenience they offer.

Unique service experience

Branch managers are the custodians of client service at Capitec Bank and are located in the front of branches to ensure a focus on service ownership. This encourages feedback from clients regarding their experiences. Management continuously evaluates service delivery at the key points of client interface by, inter alia, using a formal client service monitoring process as well as extensive visits to branches by senior executives to meet with clients.

Digital queue management

Capitec uses customised client-centric banking software which is integrated with client service branch processes, including an integrated queue management system that identifies client needs and directs clients to the appropriate consultant. Branch volumes and queue times can be monitored on a real-time basis to identify general service issues for focused attention. This process reduces the waiting time before service and improves the client experience.

Side-by-side consulting

Side-by-side consulting is part of the new branch design. This system-driven service flow enables clients to feel part of the service process. Clients are provided with all the options and information needed to support decision-making. This reduces the expectation gap between what clients expect and what they receive.

Secure and paperless real-time delivery of money management solutions

The real-time delivery of all money management solutions, including the credit offer, makes it possible for clients to leave a branch with their needs having been addressed immediately. Paperless in-branch transacting simplifies and speeds up processes without compromising on security and control for clients. This includes:

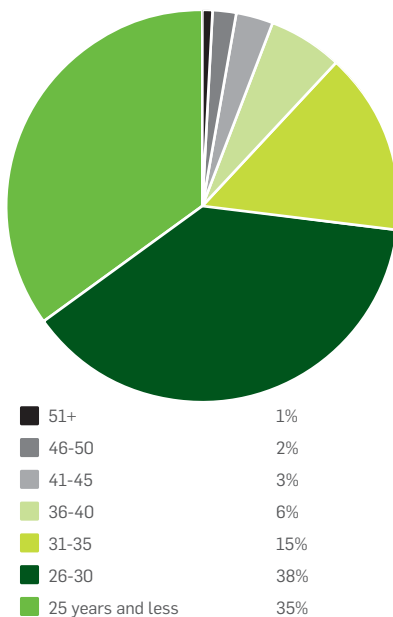
- Agreement management with digital signatures
- Central verification of electronic documentation
- Digital storage of supporting documentation such as identification documents.

Employees

Employees are the engine room for value creation. They are the catalysts that enable Capitec Bank to achieve its objectives by crystallising the outcomes required through the strategies developed with leadership. Consequently it is a high priority to recruit, retain and develop the right employees in a way that supports objectives. A holistic talent management framework is employed to enable professional development and promotion from entry level right through to executive level. Various strategies are incorporated to facilitate and improve operational efficiency and performance while maximising employee benefit.



EMPLOYEE AGE PROFILE



Talent acquisition

A company is just that, a company of people, pursuing a defined set of objectives. People are central to the company's current and future success and long-term sustainability. Consequently, talent acquisition and management is a critical facet of the business.

How do we add value? Our contribution to the business involves the sourcing and selection of quality individuals to benefit the team. Resourcefulness, creativity and character are applied when engaging with the employment market. Specialist knowledge contributes to the formulation of robust, fair selection processes and policies to gauge best fit candidates for the business.

2015 financial year objectives met

- Increased the number of external appointments through internal sourcing efforts
- Increased the number of critical skills appointments into the key areas of IT, finance and credit
- Increased our Employment Equity ('EE') appointment rate by sourcing and attracting a higher number of designated candidates in the market to our head office environment
- Implemented an e-recruitment system for all external jobs posting within our head office in Stellenbosch and business support centre in Bellville. This improved candidate response management, reduced paper, enabled better process management, facilitate a move to proactive candidate profile searching, and the empowerment of candidates to manage their own profiles and job alerts.

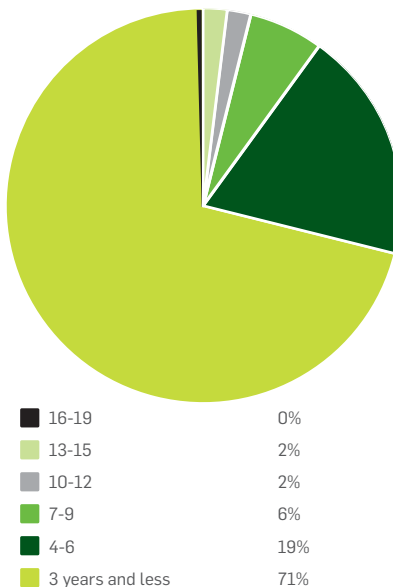
2015 financial year objectives not met

- The national implementation of the e-recruitment system; internal job posting and candidate management process was not achieved.

Looking forward to 2016

- Improve the ability to source suitable candidates for management positions, with the aim of securing an appointment (i.e. through our own internal sourcing efforts)
- Specify and promote our employment offering in such a manner that it will attract key skills and designated candidates to our head office environment
- Optimise successful sourcing channels to improve the recruitment throughput for head office
- Enhance management reporting on appointment rates at head office, appointment of EE candidates at head office, appointment of graduates, appointment of matriculants (school-leaver profile); appointment of learners coming through from our CSI initiatives (Ikhamva Youth).

EMPLOYEE TENURE



Talent management

The talent management strategy is focused on developing employees on the job, ensuring that the right people, with the right skills and capabilities, are in the right roles and are engaged and focused on the right activities.

Increased competition for talent has heightened our efforts to engage our staff through a number of employee engagement initiatives. Employee engagement surveys and focus groups were conducted in some of the functions and the outcomes utilised to direct initiatives to improve engagement and retention. In our commitment to become a preferred employer we will continue our employee engagement efforts and improve our employee value proposition to attract and retain quality talent.

An effective performance management system is at the core of effective talent management. The operational functions in Capitec have led the way with effective and efficient performance management practices. The support divisions' performance management system was revitalised in 2014 to be better aligned to and drive organisational objectives. Further development will focus on individual development plans.

Securing future talent, specifically IT resources, was a key focus supported by a graduate bursary programme. This initiative will be expanded in the future to include career days at the major educational institutes as well as further bursaries to secure supply in other functional areas. Management continuity through effective succession planning is a key focus given Capitec Bank's growth and age. This process, initiated in 2014, will be formalised in 2015.

Learning and development

Learning and development functions as a business partner through aligning interventions and programmes to business strategies. All the initiatives in learning and development are led at executive level by the human resources executive ensuring that senior management is actively involved during the design and delivery phase of learning programmes to ensure business objectives are met.

Emphasis is placed on the drivers in learning and development to:

- reduce time to competence,
- use smarter technology and
- translate learning to improvements in business results and client satisfaction

Objectives

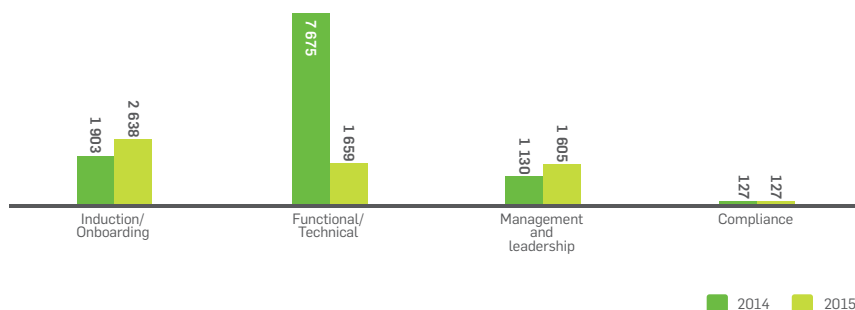
- Integration of functional, technical and management leadership training in particular in operations and the business support centre ('BSC'). This was achieved through learning interventions that met growth targets.
- Implementation of new programmes aligned with the business objectives and focusing on service, banking clients, fee income and credit.
- The continuous improvement of existing programmes with the focus on, on-boarding, technical and functional training and management and leadership training.
- Support for the implementation of key projects through designing and implementing learning solutions.

We measured learning effectiveness through learner satisfaction, knowledge and skills retention and the application of learning in the workplace.

Ensuring that the right people, with the right skills and capabilities, are in the right roles and are engaged and focused on the right activities

In operations and BSC we implemented a management operating system that enables us to track variances in performance. Performance gaps are then identified and learning solutions rapidly developed and implemented to address the need. This is tracked per quarter. This process promotes continuous performance improvement.

NUMBER OF EMPLOYEES ATTENDING COURSES



Looking forward in 2016

Learning and development will continue to add value by growing the competence of our employees with effective and efficient learning solutions.

The focus of new initiatives will be accelerating leadership and management development at head office and BSC to support existing and new initiatives in operations.

Further focus will be placed on strategic initiatives and empowering line managers to lead their people through performance management.

At BSC the quality assurance drive will be to improve the speed and quality of service to our clients.

In operations we will continue to ensure effective on-boarding of new staff and the empowering of line managers to drive learning and development in the workplace. In order to support this there will be a continuous focus on distance and workplace learning.

Employees take ownership of their development through continuous learning

The drive remains to empower employees, ensure personal growth and the succession of key individuals through professional development opportunities. To enable this Capitec has created the study assistance programme, an internal bursary scheme for employees who wish to obtain tertiary qualifications. Self-study learning opportunities, supplemented with course interventions, create an environment where individuals take ownership of their work and development.

Employee relations

Our aim is to promote and foster a healthy relationship between the line manager and their direct report, where parties take responsibility for their actions. This relationship is fostered through:

- employee-related policies
- the communication of these policies to employees
- continuous monitoring to ensure compliance with the applicable legislation

Policies include (but are not limited to) disciplinary, grievance and sexual harassment policies.

Management prioritises employee relations by encouraging two-way communication across all levels.

Support is provided by a dedicated advice service, including continuous training programmes appropriately aimed at each level of management. A healthy employee-employer relationship is emphasised to create a culture that supports the growth of the company.

Employment equity

Diversity is an organisational strength, especially in light of the diversity of Capitec Bank's client base. The organisation is committed to providing equal opportunities to all employees and aims to build a diverse, high-quality staff profile.

Employment equity is promoted through a proactive, long-term focus, rather than reactive, short-term compliance only. Internal and external candidates are actively sought that have potential and are from the designated groups.

Employment equity plan

The Capitec Bank EE plan (2012-2014) expired on 31 December 2014. In this time we successfully implemented our Affirmative Action plan to address the EE barriers identified in 2011. We have made great progress in becoming more representative (diverse) at middle and senior management. This is due to executive commitment to track EE progress on a monthly basis as well as recruitment strategies to attract more diverse candidates.

In the process of drafting our next EE plan (2015-2017) we conducted an equity barrier analysis. Based on this analysis our new plan was drafted and submitted. The plan includes numerical goals and specific actions to improve workplace equity. Specific initiatives to promote the supply of designated candidates for key pipelines and jobs are supported by our Graduate Bursary and Management Trainee initiatives.

Flexible working arrangements

Where operationally favourable, flexible working arrangements are in place. These include half-day and flexible working hours to suit the work/life balance needs of our employees.



Capitec Bank workforce

	Male				Female				Foreign nationals	
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female
Top management	1	–	–	10	–	–	–	–	–	–
Senior management	2	1	1	35	–	1	–	4	1	–
Middle management	29	35	12	198	19	15	8	75	7	–
Junior management	240	162	32	234	381	204	43	188	10	1
Semi-skilled	1 757	492	103	180	3 981	982	133	241	1	15
Unskilled	98	3	2	–	113	3	–	–	–	–
Total permanent	2 127	693	150	657	4 494	1 205	184	508	19	16
Temporary employees	12	17	1	5	39	30	–	5	–	–
Total employees	2 139	710	151	662	4 533	1 235	184	513	19	16

Designated progress EEA2 reporting information submitted for the period December 2013 to November 2014 as per Department of Labour's statutory reporting requirements

Operating environment

The global economy

Conditions in the global financial markets over the last year have been mixed. Growth has returned to the US economy while growth in Europe has stalled with authorities embarking on a quantitative easing programme to stimulate the region, amid Greece looking to escape tough austerity measures. Meanwhile Chinese growth has been slowing.

As the American economy recovers the United States Federal Reserve will consider raising rates. This is forecast to have an impact on emerging economies, which are expected to suffer from outflows unless they ensure their domestic economies offer a real rate of interest commensurate with their risk. Simply put, emerging markets may have to raise interest rates to keep the foreign portfolio investments they have captured, as American interest rates become more attractive.

Another notable international development has been the fall in fuel prices. A lower fuel price has a positive impact on various segments of South Africa as a fuel importing economy. What is not certain is the extent to which the drop in prices will pass through to the average consumer.

Effect on the South African economy

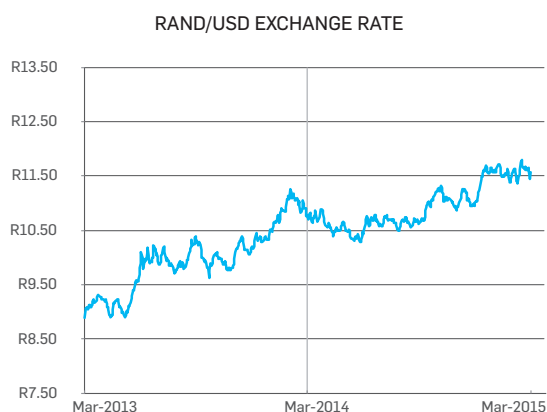
The global economy is important for South Africa as an export destination. Therefore, the statuses of foreign economies are important as a slowdown in international markets lowers the demand for South African exports. This in turn means lower production and therefore less jobs. Fewer exports mean less contribution to the current account deficit. A large current account deficit negatively impacts rand depreciation, which ultimately feeds into inflation over time through imports.

The mixed growth rate in international economies has meant mixed results for South African exports; however, local factors have emerged that result in more of a drag on the ability of South African companies to export and perform. Consequently the employment market may remain constrained.

Any action by the United States Federal Reserve to raise rates may result in the SARB Monetary Policy Committee raising the local repo rate, raising interest costs to the economy. The aim of the MPC in this instance would be to contain inflation,

particularly imported inflation occurring due to rand weakness.

The following graph depicts the weakening of the rand against the US dollar over the last 24 months.



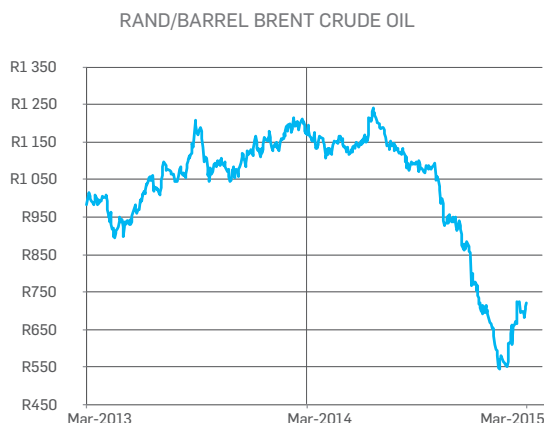
Economic conditions in South Africa

From a Capitec perspective the importance of global and local economics is focused around the impact on the market in which we operate, our clients and the cost of wholesale funding.

Cheaper fuel but more expensive electricity?

South Africa will benefit from a lower fuel cost. However, the direct benefit to consumers will be muted by the rise in the fuel levies and suppliers potentially absorbing the benefit. Capitec's upper and middle income clients will benefit directly at the fuel pump while lower income clients will at least benefit from lower paraffin prices even if taxi fares do not decrease. International fuel prices are expected to remain contained at below US\$75 per barrel up till 2020. However, increasing local electricity costs will be an offset to any windfalls on lower fuel prices particular for middle income households. Increasing electricity cost for consumers seems to be with us for some time.

More of an issue is the constraint that the electricity shortage has put on the job producing capacity of the economy although recent tax incentives introduce a positive incentive to encourage co-generation projects.



The South African National Treasury expects average annual inflation to remain within the target range over the three-year time horizon

Inflation outlook

According to official estimates average annual headline inflation is expected to remain within the target range over the three-year time horizon with an average of 4.3% for 2015 picking up to 5.9% in 2016 and 5.7% in 2017. Capitec credit policy ensures that a robust assessment of client affordability is made before granting loans including an assessment of the client's free cash flow to ensure that a buffer is available to address cost increases including those impacted by inflation.

Effect on Capitec clients

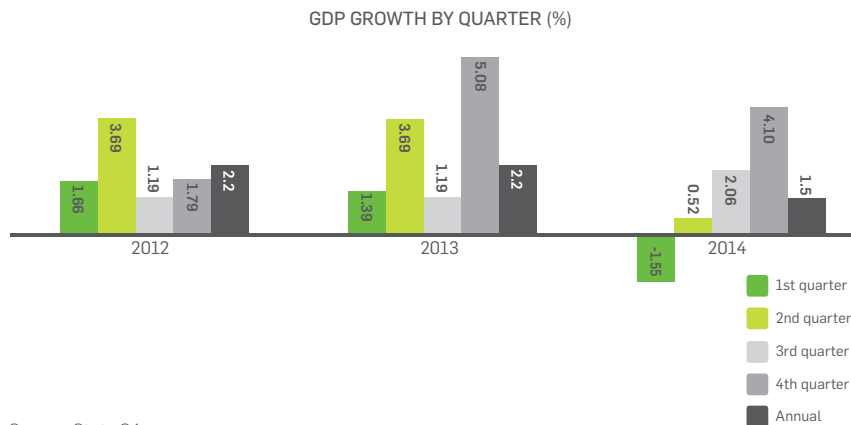
Capitec clients are protected from the direct impact of increases in interest rates as their Capitec loans are at fixed rates. To the extent that the SARB is successful in containing inflation on household cost drivers Capitec clients benefit. An analysis of our loan portfolio's sensitivity to economic drivers indicates that factors such as changes in fuel costs generally have a greater impact on many of our clients' finances than rate changes.

Growth

Current economic growth forecasts must be considered carefully. Actual outcomes have underperformed forecasts consistently for three years now. As an example the forecast growth rate for 2014/2015 was 2.7% with the actual rate coming in at 1.5%. This indicates potentially slower growth in the overall earning levels of the average Capitec client and a slower expansion of the overall market. However, in both the credit and transactional banking market Capitec has room to

grow using the value of the existing product offer and the option of expanding the current product range to attract new clients.

The South African National Treasury's economic growth expectations appear more pragmatic than in the recent past, with 2015 real gross domestic product growth forecast at 2.0%, increasing to 3.0% for 2017.



Benefits available if labour and policy stability is achieved

Other local factors that if resolved will go a long way to addressing the underlying poor performance and poor job creation of the local economy include instability in the labour sector and uncertainty around the rules of doing business. In general, the fiscal and monetary authorities have taken the lead in demonstrating the level of predictability, stability, engagement and yet strong leadership in partnership with the private sector, which is necessary to foster business confidence and job creation.

Unemployment and the skills deficit remain a challenge

The total South African population grew from 44.8 million in 2001 to an estimated 54.0 million in 2014 according to Stats SA, but 24.3% of South Africans of workable age are unemployed. This is out of a defined labour force of 20.2 million people. (Stats SA: Labour force survey December 2014). Contributing to the problem is the low level of skills within the labour force. Rationalism, co-operation and creativity is needed to overcome these challenges.

The impact of the curatorship of African Bank and the ratings downgrades

The curatorship of African Bank in August 2014 triggered tougher conditions in the wholesale funding markets with all banks having their ratings downgraded by Moody's rating services. Risk spreads widened and issuance on the local bond market declined across sectors. While the supply of wholesale funding to the market has started to improve the cost of funding remains more expensive than pre-August 2014 levels and will remain so for some time to come. While some hesitation from clients was noticed from August 2014 to October 2014, Capitec has continued to benefit from strong deposit growth as retail clients shrugged off concerns around African Bank and the sector's ratings downgrade.

This indicates that Capitec has achieved success in differentiating its brand in the market. Interactions with wholesale funders indicate continued support for the bank.

The South African unsecured credit market

Significant changes in credit markets since the introduction of the NCA

The entire South African credit market has been significantly influenced by various developments since 2008. These developments led to increased use of unsecured credit, also by higher income clients.

As a result of the introduction of the NCA and in conjunction with the impact of the 2008 financial crisis, the credit industry restructured from secured to unsecured credit. This led to consumers using unsecured credit as life improvement finance. The maximum unsecured credit amount increased from R10 000 to R200 000 currently. Pricing has continuously reduced since the inception of the NCA due to a combination of competition and a decline in the SARB repo rate which is part of the formula governing the maximum rate that may be charged. This enables consumers to borrow larger amounts over a longer period at a lower price, while still maintaining monthly instalments at levels similar to payments on smaller, shorter-term loans.

Restricted availability of secured credit

The international credit crisis in 2008 resulted in credit criteria becoming more stringent and traditional forms of credit advanced reducing significantly in real terms. This is evident in the slow growth in the mortgage markets since 2008. The outstanding mortgage book has only grown by 14% in nominal terms since the end of 2008. Additionally the number of mortgage customers has remained relatively constant at 1.8 million. This, coupled with the disappearance of many small informal lenders and a decline of employer-based lending, opened the door for the traditional banks into the unsecured credit market.

Land tenure model

The land tenure model in parts of rural South Africa and informal settlements is not conducive for traditional mortgages, which creates an opportunity for unsecured lending.

A new middle-income market

Growing urbanisation, growth in formal housing and the electrification of houses have also expanded the potential credit market. The majority of these

houses are provided with formal services such as electricity and water. This drives a significant demand for home furnishings, appliances and heating devices.

AMPS research identifies an increase in consumers in the LSM 5 – 7 categories from 31% of the population in 2001 to 63% in 2014. This growth confirms the increasing living standard of the average South African over the past 13 years and consequent growth in the credit market.

Additionally much is often made in the press regarding the level of indebtedness of the South African Consumer. However, since 2008 the level of indebtedness as measured by the ratio of household debt to disposable income and debt servicing cost published by the SARB has declined.

Unsecured credit has become significantly more affordable which is probably the most important driver of the boom of the unsecured credit market.



Trends in the South African credit market

The trends in the South African secured and unsecured credit market over the last number of years are reflected below.

Agreement type	2010 R'm	2011 R'm	2012 R'm	To 3rd quarter 2013 R'm	To 3rd quarter 2014 R'm	Trend 2012/ 2011 %	Trend 2013/ 2012 %	Trend 2014/ 2013 %
Mortgages	75 493	97 633	109 801	89 661	100 914	(1)	14	13
Secured credit	81 196	98 674	118 583	112 637	107 547	17	10	(5)
Credit facilities	25 776	33 998	53 974	51 073	49 576	30	(1)	(3)
Unsecured credit	32 874	51 976	83 314	65 554	56 376	23	(15)	(14)
Short-term	3 907	5 481	6 664	4 436	3 931	(7)	(6)	(11)
Developmental credit	–	–	–	5 754	4 636	–	292	(19)
Total credit granted for year	219 246	287 762	372 336	329 115	322 980	15	4	(2)

Rand value of unsecured credit granted – size of agreements

R0k – R3k	866	867	1 296	1 469	1 758	14	39	20
R3.1k – R5k	1 948	2 092	2 953	1 672	1 527	(12)	(17)	(9)
R5.1k – R8k	3 211	3 717	5 003	3 230	2 007	1	(18)	(38)
R8.1k – R10k	2 833	3 084	4 147	2 365	1 573	1	(28)	(33)
R10.1k – R15k	6 292	7 308	8 731	4 685	3 324	(4)	(27)	(29)
> R15.1k	17 723	34 908	61 184	52 133	46 187	32	(14)	(11)
Total	32 873	51 976	83 314	65 554	56 376	23	(15)	(14)

Rand value of unsecured credit granted by income category

R0 – R3 500	8 566	6 933	9 473	4 471	3 315	7	(41)	(26)
R3 501 – R5 500	3 884	5 133	6 687	4 198	3 386	24	(32)	(19)
R5 501 – R7 500	3 586	6 163	9 654	5 834	4 432	19	(33)	(24)
R7 501 – R10k	3 735	6 420	9 690	7 798	6 332	26	(15)	(19)
R10.1k – R15k	5 866	11 323	18 016	13 086	11 164	17	(18)	(15)
> R15k	7 236	16 004	29 794	30 167	27 747	33	2	(8)
Total	32 873	51 976	83 314	65 554	56 376	23	(15)	(14)

Current portion of gross debtors book

Mortgages	627 808	653 115	696 132	731 747	759 735	4	3	4
Secured credit	183 761	194 179	225 341	283 697	310 243	15	13	9
Credit facilities	100 544	108 464	116 101	147 844	163 817	16	14	11
Unsecured credit	40 043	56 731	88 927	122 373	118 267	36	2	(3)
Short-term	554	627	805	564	546	1	(31)	(3)
Developmental credit	–	–	–	20 557	22 265	–	1	8
Total	952 710	1 013 116	1 127 306	1 306 782	1 374 873	11	6	5

The regulatory environment

Capitec Bank operates in a highly regulated environment and endeavours to maintain healthy relationships with regulators and facilitate continued compliance with regulatory requirements.

South African regulatory agencies have broad jurisdiction over many aspects of the bank's business, including permissible rates of interest and fees charged to borrowers, capital adequacy, marketing and selling practices, advertising, licensing agents, terms of business and permitted investments. The main legislation and bodies are detailed below.

The Banks Act, 1990

Protect the public by regulating and supervising the entities which take their deposits.

The SARB

South Africa's central bank is responsible for the regulation and supervision of the banking sector in South Africa, with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole.

The NCA

Legislation aimed at protecting certain types of consumers. The NCA regulates the granting of consumer credit and provides for advanced standards of consumer information. The NCA requires credit providers to register with the NCR.

The NCR

The NCR oversees retail credit market regulation and supervision, including unsecured lending.

The National Payment System Act, 1998

Regulates the South African financial settlement system in line with international practice and systematic risk management procedures.

The PASA

Facilitated the introduction of payment clearing house agreements and agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in interbank settlement.

SARS

The nation's tax collecting authority is responsible for administering the South African tax system and customs service.

Income Tax Act, 1962

Consolidates the law relating to the taxation of incomes and donations, provides for the recovery of taxes on persons, the deduction by employers of amounts from the remuneration of employees in respect of certain tax liabilities of employees and for the making of provisional tax payments and for other related tax matters.

Tax Administration Act, 2011

Aligns the administrative provisions of tax legislation and provides for the effective and efficient collection of tax.

Value Added Tax Act, 1991

To provide for taxation of the supply of goods and services and the importation of goods.

Consumer Protection Act, 2008

Regulates the relationship between suppliers and consumers in order to protect the rights of the consumers.

Electronic Communications and Transactions Act, 2002

Guarantees the validity of agreements concluded, either partly or wholly by a data message.

POCA

Deals with money laundering, racketeering and criminal and civil forfeiture, and sets out the substantive money laundering offences.

FICA

FICA complements POCA and provides an administrative framework to combat money laundering.

Following the global economic and financial crisis, regulation and supervision of the global financial system has been and will continue to be a priority for governments and supranational organisations. Specifically, Basel issued revised minimum global standards for banks which place enhanced emphasis on the consistency and quality of capital and on curtailing liquidity risk. These include the Basel 3 proposals, implemented from 1 January 2013 with various phase-in arrangements. Refer chapter 9 for further detail pertaining to Basel 3.

Lending in South Africa is highly regulated through the NCA, which is a consumer-focused statute that requires credit providers to perform a thorough assessment of the ability of prospective clients to repay any potential credit they may be granted. Changes to the NCA may impact Capitec Bank's business.

Credit ratings

South Africa's sovereign rating affects the South African banking sector as a whole.

Current South African foreign currency credit ratings and long-term outlook

Rating agency	Rating	Outlook	Date
Fitch	BBB	Negative	12.12.14
Moody's	Baa2	Stable	06.11.14
Standard & Poor's	BBB-	Stable	13.06.14

Capitec Bank's credit ratings affect the cost and volume of wholesale funding that it can attract. Capitec Bank's credit ratings, along with those of the major South African banks, were downgraded by two notches in the financial year under review, after African Bank was placed under curatorship. In August 2014, the bank had the same ratings as below, but with a negative outlook. This outlook was changed to stable in November 2014.

Capitec Bank's credit ratings are as follows:

Rating agency	Long-term	Short-term	Outlook	Date
Moody's National Scale Ratings	Baa1.za	P-2.za	Stable	11.11.14
Moody's Global Scale Ratings	Ba2	NP	Stable	11.11.14

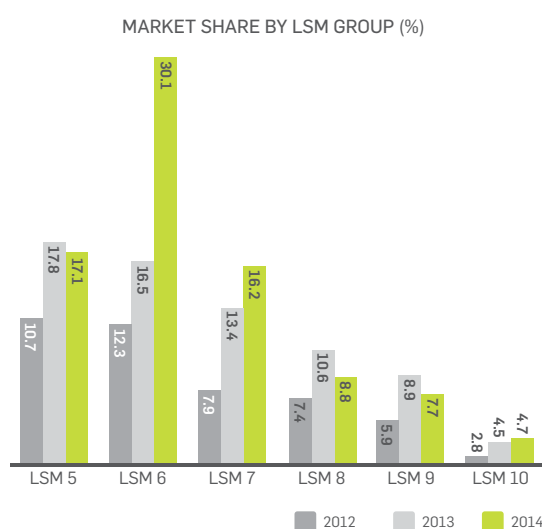
Competition and market share

Conditions in the banking industry remain highly competitive. Both advertising investment and pricing competition have been used as strategies to outperform the opposition. Pricing in the market has decreased or remained static, in real terms, primarily in the bottom end of the market, as consumers remain price sensitive. Capitec Bank's simplified product range, innovative service flow and attractive price offer, which includes a transparent price structure, have been an important drawcard for new banking clients.

The market remains largely pay-date driven and lengthy queues are commonplace over month-end. All banks face logistical and service quality challenges due to increased client numbers during these peak periods. The balance between efficiency and quality of service remains vital to success in the retail banking industry. To this end, we have substantially improved the systems that control the in-branch service flow and have installed real-time monitoring capabilities to measure efficiency and service quality.

Clients

The performance of the bank is directly linked to the number and profile of clients that the bank acquires. While the client profile was largely skewed to the lower-income, lending clients in the formative years of the bank, the current profile of clients is in line with the demographics of South Africa and has changed to predominantly banking clients. This includes a shift to higher-income clients. The chart below reflects the trend in our market share by LSM group for the last three years:



Source: AMPS

No demographic segmentation

Demographic segmentation, especially income level, however, is not used to target a specific type of client. The focus is on providing essential banking to all clients, regardless of income level.

Capitec Bank has 6.2 million clients of whom 2.8 million are full bank clients, i.e. they deposit an income stream with the bank and do a minimum number of typical bank transactions each month. Growth at Capitec Bank is primarily focused on acquiring full bank clients and the potential exists to attract the remaining 3.4 million existing clients to become full bank clients.

These clients are the key contributors to the bank's transaction income and are also the easiest to manage from a credit perspective as their affordability and behavioural patterns are easier to evaluate, when seeking credit.

Capitec Bank's full bank clients represent

18.3%

of the 15.3 million employed South Africans, indicating a strong potential for growth

(Stats SA: Labour force survey December 2014)

The table below illustrates the trend in the number and percentage of adult South Africans who used formal banking for the past three years:

	Number in millions	% of total population
2012	23.9	67
2013	27.4	75
2014	27.2	75

Source: Finscope



one solution

the all-in-one solution to money management

Capitec Bank's share of the market for primary banking services (based on independent AMPS survey December 2014):

16.8%

(December 2013: 12.7%)

This growth has emanated from all income levels and is a reflection of the acceptance of Capitec Bank as a serious alternative to the traditional banks.

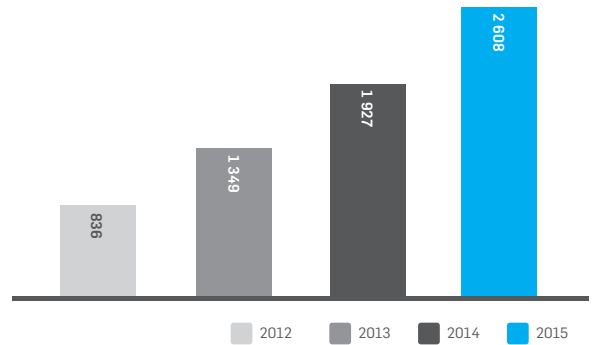


transact
get lower, transparent
bank costs

Transacting

Capitec Bank's transaction income stream has grown consistently over recent years and by 35% for the reporting period. The adjacent chart illustrates the growth in transaction income.

NET TRANSACTION FEE INCOME (R'm)

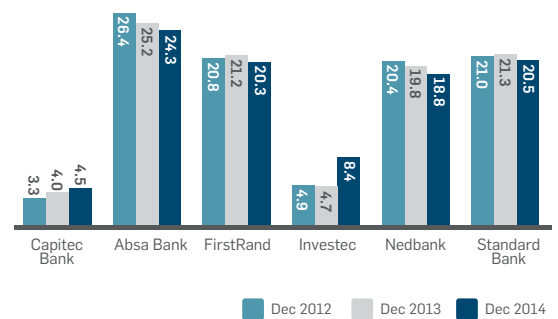


save
earn higher interest
on savings

Savings

Capitec Bank's retail deposit book has grown consistently as client numbers have grown and the product offer has expanded. The adjacent chart illustrates the trend in market share relative to competitors.

MARKET SHARE OF RETAIL HOUSEHOLD DEPOSITS



Source: SARB BA900 regulatory disclosure



credit
get easy access to
personalised credit

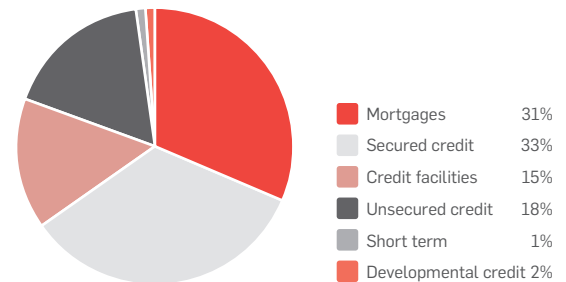
Credit

At the end of December 2014, as per SARB BA900 data, the total domestic loans and advances market book totalled R2 867 billion (gross of credit impairments). Of this, total domestic household retail loans and advances comprised R1 373 billion of the market.

The product composition of retail loans and advances segment, is illustrated in the adjacent chart.

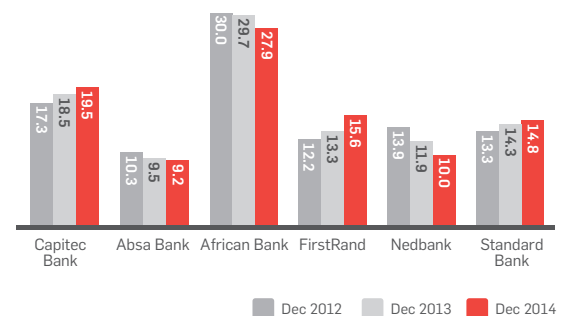
At the end of December 2014, Capitec Bank had the second largest market share in the unsecured credit market book having increased its market share by 1% during the year.

RETAIL MARKET LOAN SALES BY PRODUCT



Source: NCR (September 2014)

MARKET SHARE – OTHER LOANS AND ADVANCES TO HOUSEHOLDS (%)



Source: SARB BA900 regulatory disclosure
(excludes non-bank credit providers)

What do the chairman and chief executive officer have to say?

We are building a bank to last more than a hundred years and are committed to providing simple, accessible and affordable banking.



Through a storm

Our number of active clients increased by 856 000 to 6.2 million, compared to an increase of 711 000 last year. According to the comprehensive AMPS survey, 16.8% of South Africans regard us as their primary bank, up from 12.7% the previous year. However, our dominant profit driver remains our personal lending business where loan growth was modest but still positive. In this part of our business we concentrated on improving credit granting and recoveries. A healthy growth in all departments seemed unlikely early in our financial year. South Africa was rocked by large strikes, affecting many of our clients and on 10 August 2014 our biggest competitor was placed under curatorship. It was an unpleasant experience to watch them fold under the weight of bad debt and market panic. Yet, by year-end our retail clients proved to be unaffected by this drama and total retail funding grew by 27% to R30 billion. The wholesale funding market has not yet returned to normal, as we explain below. Our earnings growth of 26% was driven by an increase in net transaction fee income, increased recoveries and improved credit granting.

Net transaction fee income increased 35%

After growing by 35%, our net transaction fee income covers 65% of our banking operating expenses and provides 34% of our net banking income. This growth will slow temporarily next year as new limits on card processing fees between banks and merchants are applied. We plan for this to be countered by an increase in client numbers and increased activity per client.

More South Africans are trusting Capitec with their money

The number of our primary banking clients grew by 578 000, to 2.8 million. These are clients who make regular deposits (mostly their salaries) into Capitec accounts and who transact more regularly. Acceptance of the Capitec brand by higher income earning clients has influenced this performance.

We believe in branches and staff development

Although electronic service channels are important, face-to-face communication remains essential for many clients. We place a priority on internal employee promotion and provide easy access to the training they need to perform effectively. During the year we promoted 1 251 employees. We increased the number of branches by 39 to 668. We increased the capacity of existing branches by increasing the number of consultant workstations. Across the bank we created 1 191 new positions and now have 10 261 employees.

Capitec is a retail bank only

We do not do business or corporate banking. The only services we provide to businesses support our retail focus, such as a facility to pay salaries to employees, and card machines. We focus our efforts on providing a distinctive service, saving our clients time and money. This means we are obsessed with analysing details. Precision is necessary to deliver on the transparency and simplicity of our product offer.

Our automated queue management system enables us to provide better service and to improve our branch efficiency. In the past year our branches issued 62 million service tickets, an increase of 30% on the 48 million of the previous year. We increased our ATM network by 500, bringing the total of own and partnership ATMs to 3 418. The take-up of our cell phone app and internet banking continues to grow significantly and we are pleased with the feedback received from the market on the simplicity of these products.

For the third year in a row Capitec received the highest general customer satisfaction scores for banking in the South African Customer Satisfaction Index.

In November 2014, for the second year in a row, Capitec was voted South Africa's favourite financial services institution in the Ask Afrika Orange Index customer service awards. Capitec ranked third overall, the only financial institution to make the top 20. We are thrilled by this recognition, but know that service quality is a daily challenge in any retail business.

Increase in the cost-to-income ratio

The cost-to-income ratio increased from 32% in 2014 to 35% this year. The two biggest reasons for the 25% growth in expenses was a growth of 13% in the number of employees and an increase of 479% in employee incentive costs. Salary costs grew by R232 million and bonus incentive costs grew by R254 million. Profit targets were achieved, resulting in special bonuses for all employees. The 123% increase in the share price increased the cost of incentives that are linked to this price by R109 million.

A better credit granting model

We continually adjust our credit criteria to improve the quality of the credit we grant. These changes are intended to reduce credit risk, at the same time enabling us to lend more to specific groups of clients. In general it has reduced the period a loan is granted for. The average term of the outstanding book decreased from 45 months at February 2014 to 43 months at February 2015. Although the terms of loans advanced were shorter, the value of loans advanced grew by 7% from R18.2 billion to R19.4 billion in 2015 as the average loan amount increased.

Gross loan impairment expense increased by 5%

The gross loan impairment expense rose by 5% to R4.6 billion, due to the result of extended strikes in the mining sector and the impact on downstream industries, the strike in the manufacturing sector and challenges in the administration of collections in the education sector. Additionally, because bad debts occur over time, the expense includes bad debt occurring on loans sold in previous years. Write-offs increased by 26% from R3.5 billion to R4.4 billion, compared to a 99% increase in 2014. The level of provisions was increased by R220 million compared to an increase of R914 million in 2014, because of lower arrears. Year-end arrears were 10% lower than last year.

We provide 8% on all new and up-to-date loans

Arrears were lower as a percentage of gross loans and advances, amounting to 5.4% compared to 6.5% at the end of the 2014 financial year. The level of provisions to arrears was 196%, compared to 167% at February 2014. Bad debt provisions increased 6% to R3.857 billion. We provide 8% on up-to-date loans, 45% on loans one instalment behind, 73% for two instalments and 87% for three instalments. After 90 days in arrears we consider the loan bad, write it off and hand it over to the legal process. The book is performing within our risk appetite. The board and management concluded that the level of provisioning is sufficient.

We enhanced our centralised pre- and post-delinquent collection processes; we improved reporting, strengthened management, restructured the legal collections environment and refined systems to improve recoveries by 39% to R602 million.

Capital adequacy healthy at 36%

The profit Capitec is generating is sufficient to fund the growth in the retail loan book. The capital adequacy ratio declined from 39% at February 2014 to 36% at February 2015 mainly because we keep more money in higher yielding investments such as fixed and term-notice deposits, which according to the rules require more capital than government treasuries. At the end of the 2015 financial year 37% of bank assets were invested in cash and short term funds compared to 31% at the end of the 2014. Capitec remains conservatively leveraged with total assets at 5 times equity.

The return on equity is on target at 25%. The total annual dividend increased by 26% in line with the growth in earnings.

Retail deposits grew by R6.4 billion

While we noted some depositor hesitation from August 2014 to October 2014 due to African Bank's curatorship, retail depositors set aside concerns they may have had about the market and have increased deposits significantly since then. Deposit growth of R3.4 billion occurred in the second half of the year surpassing the R3 billion deposited in the first half.

Wholesale funding remains important

Wholesale funding reduced as some funding instruments matured. In contrast to the retail market, confidence in the wholesale funding market was negatively influenced by market events and the ratings downgrade of the South African banking sector. The availability of liquidity for all market participants has been lower and the cost higher.

We extended the term of some of our wholesale funding agreements. Wholesale funding remains an important part of our liquidity structure. Capitec is fully compliant with the Basel 3 liquidity ratios. Our conservative liquidity policies are unchanged.

Regulation

Capitec engages regulators and government in a cooperative way, to understand and implement new regulations. We encourage regulators to engage with industry players to ensure both efficiency and practicality are considered, to the benefit of all stakeholders.

Contingent liability

Since 2013 we have reported that the National Credit Regulator ('NCR') alleged that Capitec Bank Limited had contravened the National Credit Act, 2005 (Act 34 of 2005). The National Credit Tribunal dismissed the NCR's application and the NCR lodged an appeal. The appeal has been set down to be heard in the Gauteng High Court in February 2016. It remains impracticable to estimate the financial effect of any possible outcome. Capitec is still of the view that the matter will be satisfactorily resolved through due process.

Changes in board composition and executive management

Pieter van der Merwe, a board member since 2007, has announced his retirement. Pieter has served as the chairman of the audit committee. He has been a stalwart member of the board and we thank him for his commitment, leadership and contribution.

On 23 March 2015, Jean Pierre Verster was appointed to the Capitec and Capitec Bank boards and will take over as the audit committee chairman. He comes with experience in banking and financial services and we welcome him.

After 14 years of outstanding and dedicated service, Chris Oosthuizen who was in charge of information technology ('IT') since we started, will be retiring in May 2015. We are indebted to Chris for developing the IT platform on which Capitec Bank stands today. He is succeeded by Wim de Bruyn. Wim has many years of IT experience in banking, and we welcome him on board.

Prospects

The South African economy continues to perform below its potential. However, we are optimistic. The growth in primary banking clients is an exciting trend that we expect to continue, helping to offset the impact of the new limits on card processing fees. Our brand is going from strength to strength and our efficiencies continue to improve.

Dividends

The directors declared a final gross dividend of 590 cents per ordinary share on 23 March 2015, bringing the total dividends for the year to 836 cents per share.

On behalf of the board



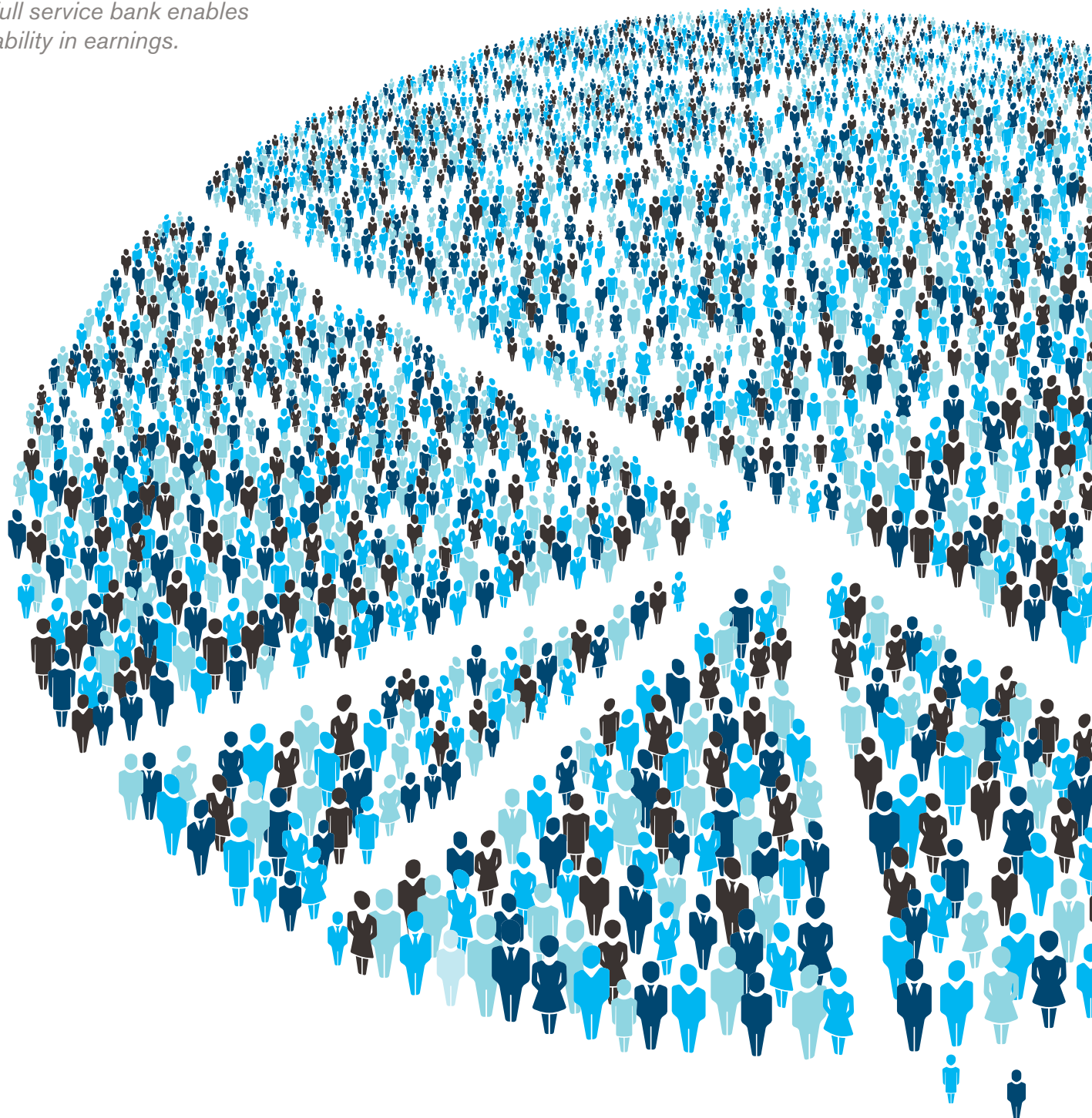
Michiel le Roux
Chairman



Gerrie Fourie
Chief executive officer

What is the chief financial officer's view?

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





Returning sustainable value

Return on equity on target at 25%

Challenges in 2015 included the longest labour strikes in South Africa's history, which impacted the mining sector and downstream industries, negatively affecting overall economic growth and turmoil in the funding and capital markets. Annual growth in GDP to December 2014 was 1.5%, limiting expansion of the retail credit market. A consistent track record of conservatism in the way Capitec manages its unsecured lending book, liquidity and capital and a differentiated brand stood us in good stead. Support from our retail clients, wholesale funders and the sustained efforts of employees enabled us to report a return on equity of 25% and 26% growth in earnings and dividends per share.

Earnings of R2.547 billion

Earnings and headline earnings for the 2015 financial year amounted to R2.547 billion compared to the R2.017 billion earned in 2014. Earnings and headline earnings per share increased by 26% from 1 752 to 2 209 cents per share. The total dividend for the 2015 financial year is 836 cents. The 26% growth in earnings per share is better than the 15% growth in earnings per share for 2014. The increase in earnings was due to enhanced management of credit, which improved the performance of the loan book and growth in net transaction fee income from robust client acquisition.

The compound annual growth rates ('CAGR') are as follows:

	Since listing in 2002	Last 10 years	Last 5 years	Last 3 years
	%	%	%	%
Headline earnings	36	43	42	33
Headline earnings per share	29	36	33	25
Dividend	30	39	32	25
Share price	57	39	38	30

Loans advanced ('sales')

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

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

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

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

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

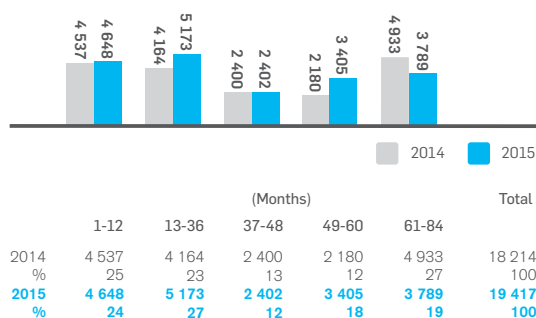
The market for loans in the short-term category of 1-12 months is highly competitive. The total number of short-term loans granted declined by 8% to 2.3 million. However, the value of sales increased by 2% to R4.6 billion. The overall mix of loan sales for terms less than 12 months to loans sold with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

Negative industry growth of 14%

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

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

LOAN SALES BY PRODUCT (R'm)



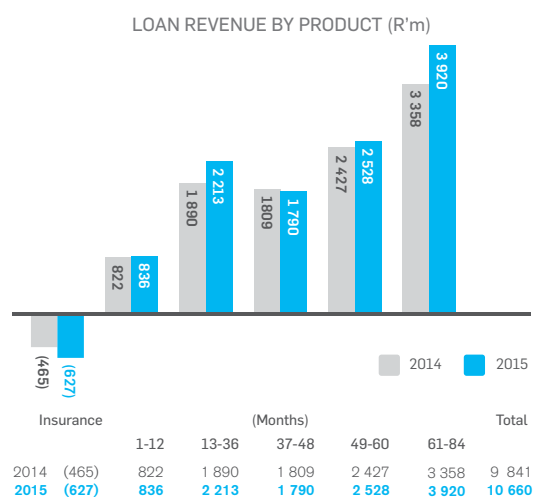
Loan revenue

8% growth in loan revenue

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

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

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



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

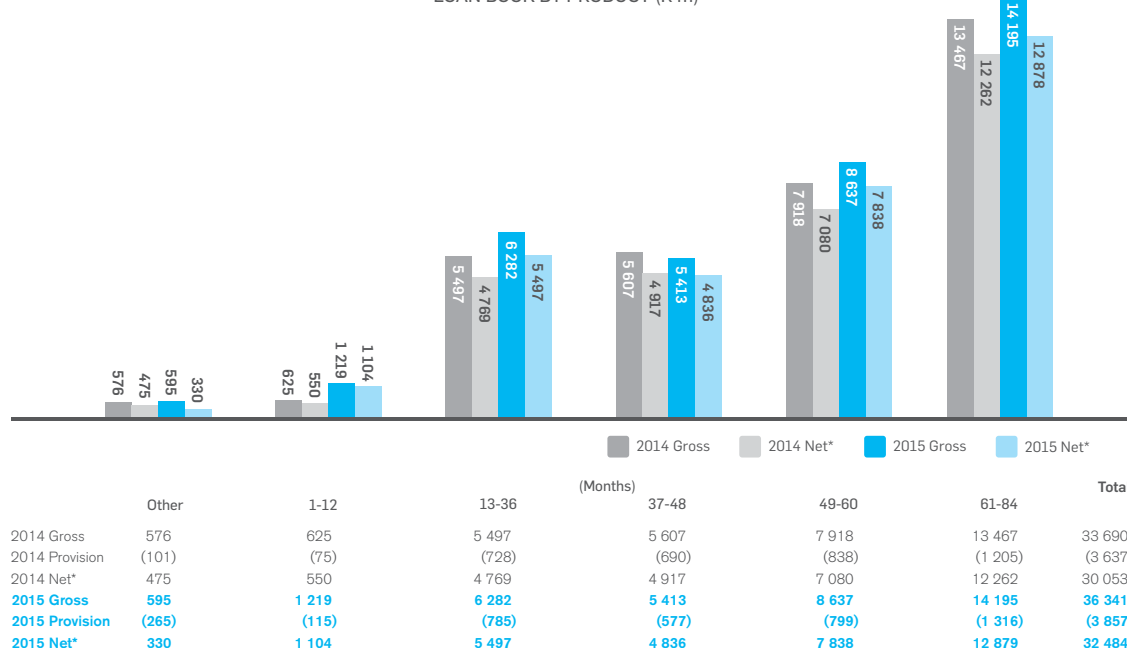
Sales for the short-term products increased in the second six months of the year after having been lower in the first six months, ending the year slightly above 2014. The revenue followed this pattern, benefiting from much better initiation fee revenue in the second six months.

Outstanding loan capital protected from retrenchments and the death of clients

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

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

LOAN BOOK BY PRODUCT (R'm)



* Net – loans and advances net of impairment provisions

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

Loan book, arrears and provision for doubtful debts

8% growth in loans and advances

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

Ongoing tightening of credit granting criteria

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

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

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

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

Continued prudence in provisioning

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

10% decrease in arrears

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

6% increase in impairment provisions

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

		Aug 2013	Feb 2014	Aug 2014	Feb 2015
Gross loans and advances	R'm	32 644	33 690	35 086	36 341
Loans past due (arrears)	R'm	1 799	2 174	1 935	1 964
Arrears to gross loans and advances	%	5.5	6.5	5.5	5.4
Provision for doubtful debts	R'm	3 184	3 637	3 763	3 857
Provision for doubtful debts to gross loans and advances	%	9.8	10.8	10.7	10.6
Provision/arrears coverage ratio ⁽¹⁾	%	177	167	194	196
Arrears and arrears subsequently rescheduled and now current in the past 6 months	R'm	2 634	2 921	2 680	2 848
Arrears and arrears subsequently rescheduled and now current in the past 6 months to gross loans and advances	%	8.1	8.7	7.6	7.8
Arrears and arrears subsequently rescheduled and now current in the past 6 months coverage ratio ⁽¹⁾	%	121	125	140	135

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

Rescheduled accounts

We continue to closely monitor rescheduled accounts. As amending a new contract does not necessarily remove the risk, we have always carried a higher provision on current rescheduled loans than the rest of the current book. During the year we increased our provisioning on the higher risk class of arrears, which were

rescheduled in the past six months, from 33% in 2014 to 42% at the end of 2015.

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

R'm	2015	%	2014	%
Gross	33 494		30 769	
Impairment	(2 335)	7%	(2 073)	7%
Current	31 159		28 696	
Gross	883		747	
Impairment	(366)	41%	(246)	33%
Current – arrears rescheduled in the past six months	517		501	
Gross	1 964		2 174	
Impairment	(1 156)	59%	(1 318)	61%
Arrears	808		856	
Total gross	36 341		33 690	
Total impairment	(3 857)		(3 637)	
Total net	32 484		30 053	



Loan impairment expense

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

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

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

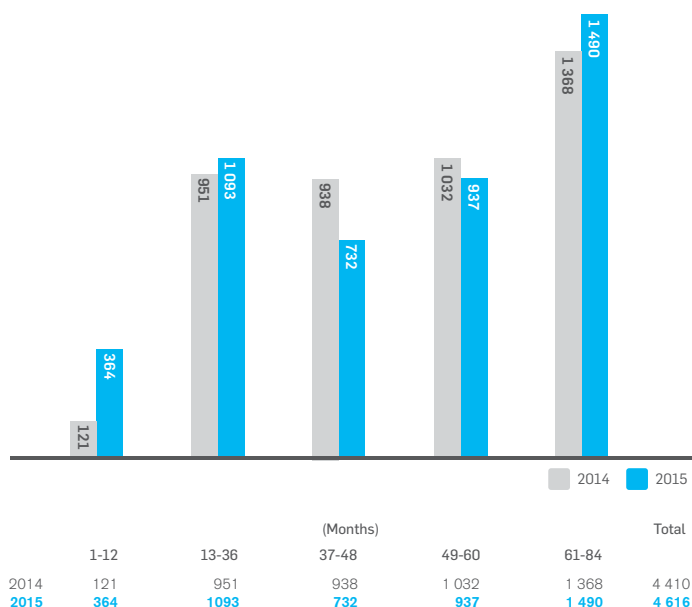
A high volume of system changes carries with it an element of operational risk as incorrect implementation can lead to credit losses. In 2015 a significant focus was placed on ensuring that changes to credit systems and other systems that can affect collection processes were thoroughly planned, tested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

The provisions charge was R220 million compared to R914 million in the previous year. This does not mean that we were less conservative in provisioning. The book required

a lower level of provisioning as the arrears experienced during the 2015 year indicate that the loan book is performing better, requiring a smaller increase.

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

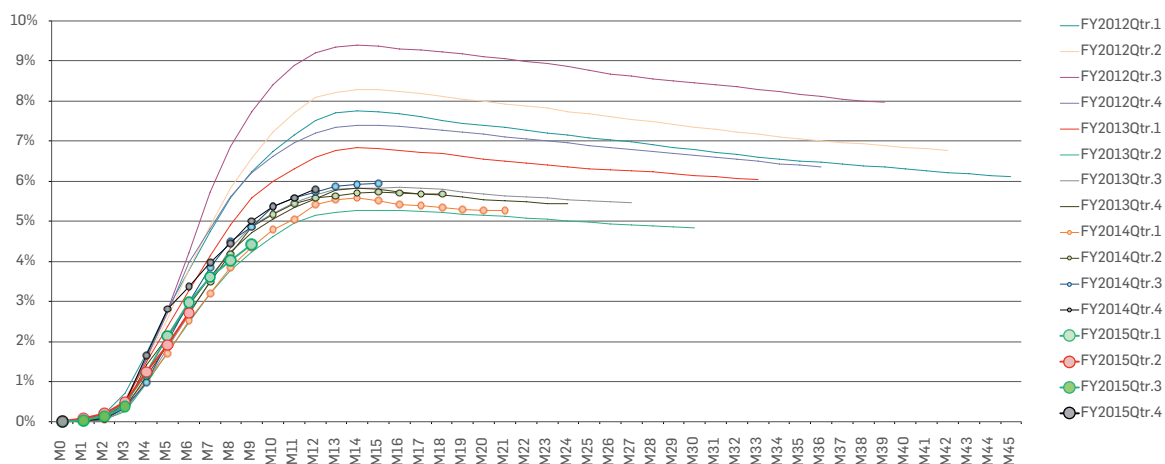
GROSS LOAN IMPAIRMENT EXPENSE (BEFORE RECOVERIES) (R'm)



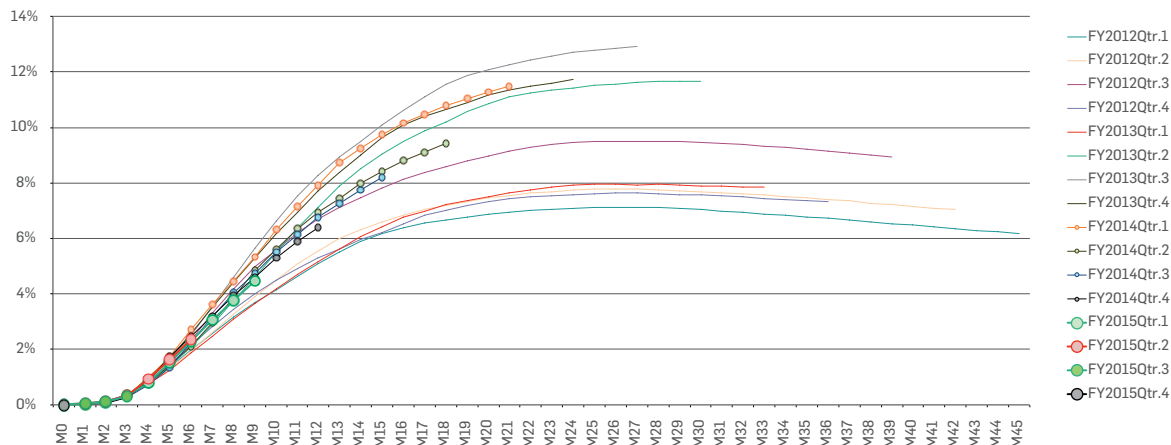
Vintage graphs

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

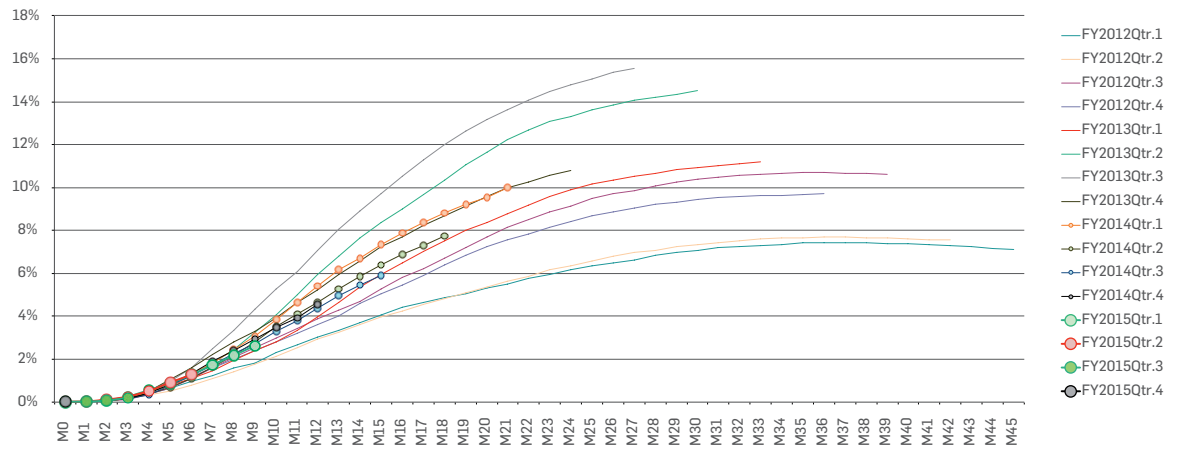
7 – 12-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



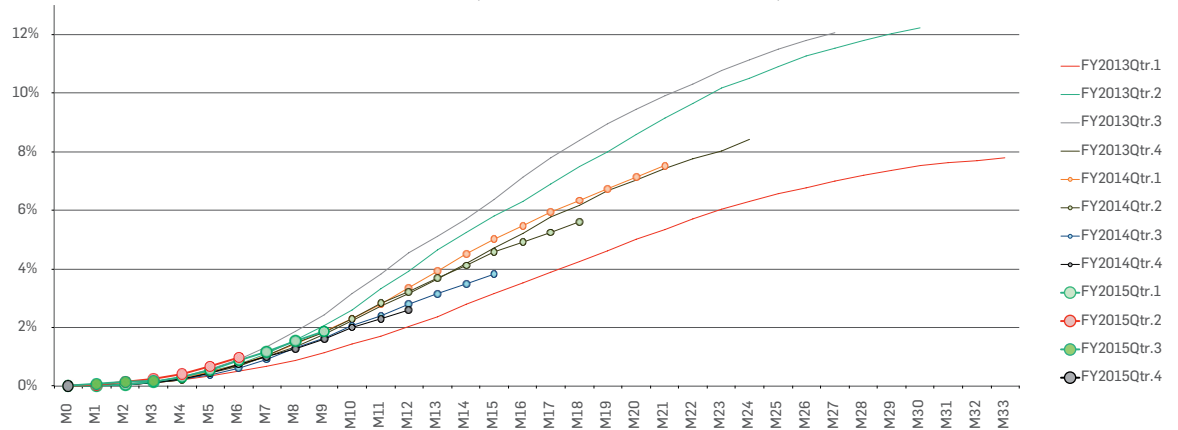
13 – 36-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



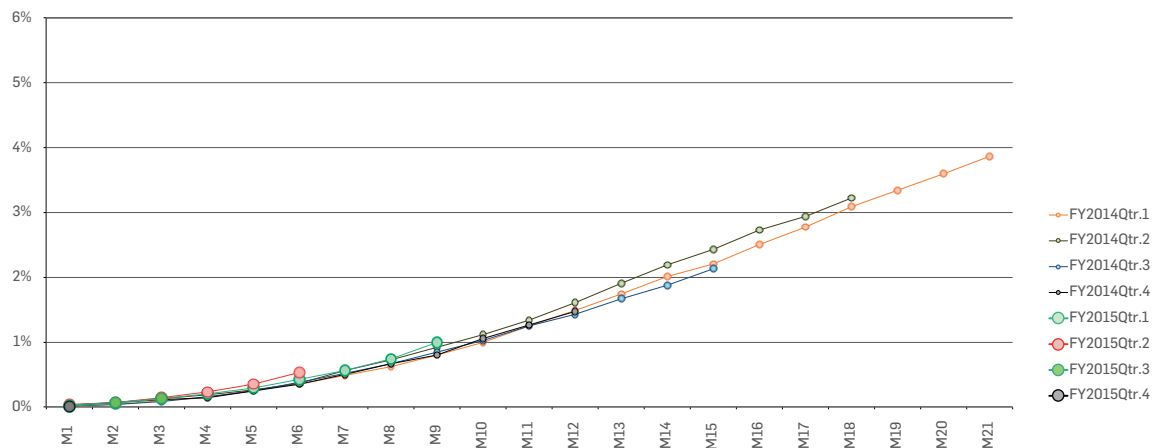
37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



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



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



Transacting

Net transaction fee income of R2.6 billion

Net transaction fee income grew by 35% to R2.6 billion compared to R1.9 billion in the 2014 financial year. Net transaction fee income amounted to 34% of net banking income after impairment charges, up from 32% for the 2014 financial year. The 55% target for net transaction fee income as a percentage of banking operating expenses by 2016 was exceeded at 65% (2014: 59%). Management aims to maintain this target of 55% for the next two years.

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

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

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

Funding

Debt-to-equity ratio of 3.7:1

The debt-to-equity ratio edged up from 3.6:1 in 2014 to 3.7:1 due to continued strong growth in retail deposits. Total deposit funding increased by R5.8 billion (2014: R6.4 billion) to R41.2 billion. Retail deposits increased 27% or R6.4 billion to R30.0 billion. Retail deposits grew more strongly in the second six months, increasing by R3.6 billion compared to the R3.0 billion of the first six months despite the seasonal holiday period when balances are drawn down. Wholesale funding declined by a net R0.8 billion.

Retail call deposits grew strongly

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

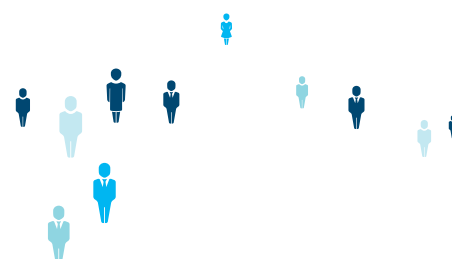
Retail fixed savings now 50% of term funding

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

Wholesale funding

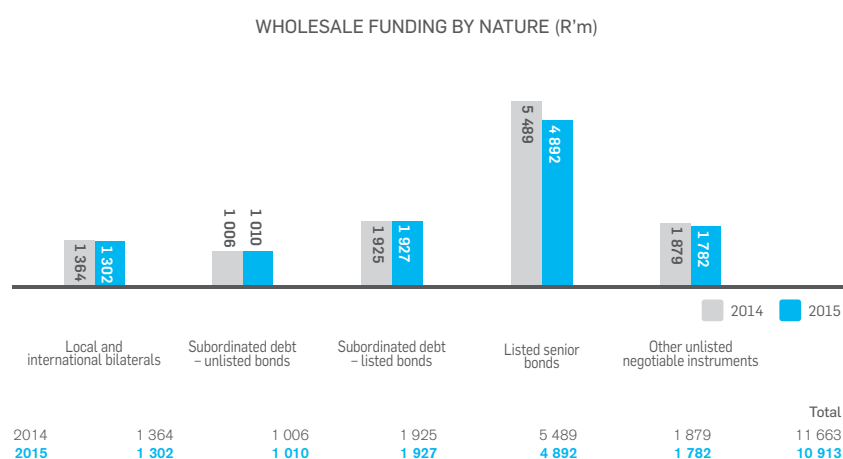
The value of wholesale deposits declined from R11.7 billion in 2014 to R10.9 billion as instruments matured. The curatorship of African Bank resulted in a decline in general debt issuance in the listed bond and over the counter markets. Risk aversion by funders resulted in spreads widening and liquidity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

Day-to-day operations at Capitec Bank were unaffected by the change in sentiment as the bank is conservative with liquidity, having a good match of longer-term assets with long-term funding and healthy liquidity buffers. In the last six months we began to roll some term funding agreements. We also increased the tenor of some agreements that were due to mature in the next 12 months, where we considered the price of doing so to be fair. A total value of R744m of funding was rolled and extended, increasing the average term of that funding by 30 months. At year-end the weighted average maturity of all wholesale funding was 27 months (2014: 36 months).



Interest rate exposure on wholesale funding hedged

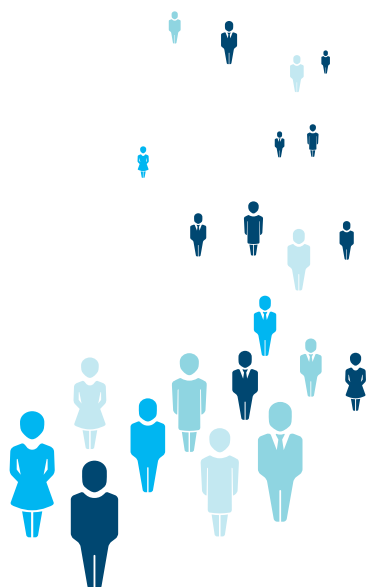
In 2015 we swapped most of the remaining floating rate debt instruments to fixed interest rates. At February 2015 the balance of floating rate debt instruments that were unhedged as a percentage of the total wholesale funding book was 3% (2014: 23%). The composition of wholesale funding by funding instrument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



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

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

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



Liquidity

Conservative liquidity policy maintained

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

Compliance with new Basel 3 liquidity ratios

Capitec continues to comfortably comply with the two new Basel 3 liquidity ratios, the liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR'). Compliance with the LCR came into effect on 1 January 2015, with a minimum required ratio of 60%, increasing to 100% by 2019. The group LCR was 1 210% (2014: 1 635%^{*}). The decrease is due to lower investment in national treasury bills and greater investment in bank deposit products. Compliance with a NSFR of 100% is required from 2018. The group NSFR was 138% (2014: 132%). The increase is due to the strong retail deposit growth, which has a high contribution percentage to the stable funding part of the ratio.

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

Capital

Capital is adequate

Capitec remains well capitalised with a capital adequacy ratio of 35.7% (2014: 39.0%). The appropriation of retained earnings is adequately funding the growth in the retail lending book. The retail loan book decreased the capital adequacy ratio by 2.3% and retained earnings (2015 profit less dividends paid and reserved for) increased the capital adequacy ratio by 5%.

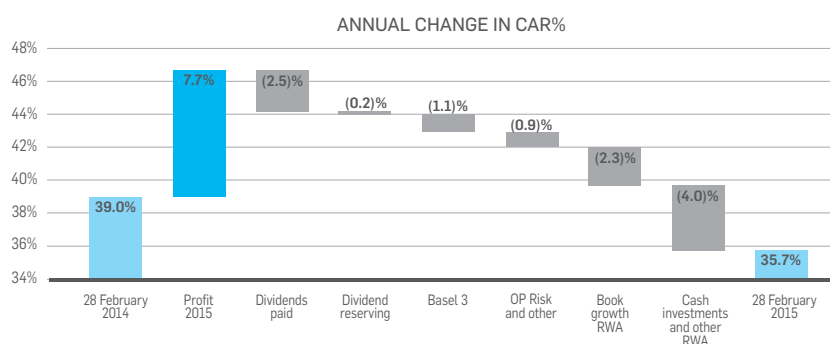
The main need for capital came from the investment made in cash and short-term investments which offer better yields and decreased the capital adequacy ratio by 4.0%.

A total of R52 million of non-qualifying perpetual preference shares were redeemed during the year and replaced with less expensive funding. Lack of clarity in the market regarding the most appropriate terms and conditions for issuing new Basel 3 compliant preference share and subordinated debt instrument remains. Therefore, we maintain a conservative capital position as non-qualifying Basel 3 preference share and subordinated debts instruments continue to phase out. The core equity ratio is 29.4% (2014: 30.4%).

Credit rating

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

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



Cost structure

Cost-to-income ratio increased to 35%

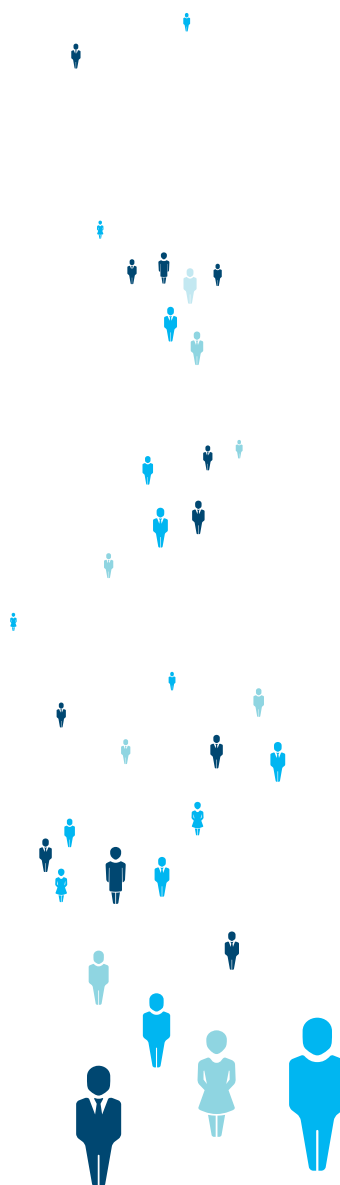
The cost-to-income ratio increased from 32% for 2014 to 35% in 2015. Income from banking operations increased by 15%, while operating expenses increased by 24%. The growth in income from banking operations is dealt with in the sections on loan revenue and transacting. Total banking operating expenses increased to R4.0 billion from R3.2 billion.

The main cost drivers of the increase were, increasing the number of employees at existing branches to improve service levels and variable performance-based incentive costs for employees. Basic employee salary costs increased by R232 million and variable performance-based incentive costs by R363 million. The increase in variable incentive costs was due to all employees achieving the earnings per share growth targets and the rise in the share price from R183.75 at February 2014 to R410.00 at February 2015 which increased the cost of share appreciation rights for the group. The total growth in incentive costs comprised R254 million for bonuses, R104 million for share appreciation rights and R5 million for equity-settled method share options.

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

The Capitec branch network grew to 668. Based on the average number of income-generating outlets for each year, the operating expense per outlet for the 2015 financial year amounted to R6.2 million compared to R5.5 million for the 2014 financial year.

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



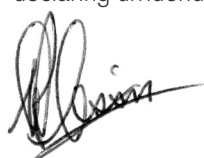
Regulation

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

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

Dividends

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



André du Plessis
Chief financial officer

What is our strategy and how do we lead?

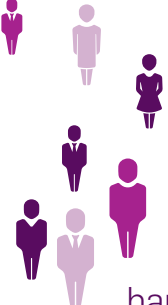
Appropriate strategy, focused leadership, healthy corporate values and responding to stakeholders' needs combine to create sustained value in the long term.



Our strategies are aligned with the overriding objective of continuous long-term sustainable value creation for all who have an interest in the business. The expected outcome of the combined strategy is long-term, real growth in earnings and assets.

Strategic, economic, social, operational, and environmental objectives are integrated in the way we do business through people, processes, technology and risk management.

Objective	Strategy	Outcome
Strategic	Provide unique service	Global One Product – one product to meet all needs (page 22)
	Enhance the product offer	Credit card facility in progress (page 60)
	Grow client numbers	856 000 new active clients (page 11)
	Grow transaction income	Net transaction fee income grew by 35% to R2.6 billion (2014: R1.9 billion) (page 10)
	Manage the cost of credit to clients	Optimal affordability (page 22)
	Responsible management of regulatory and compliance risk	Integrated risk management (Chapter 9)
Economic	Increase headline earnings per share	HEPS grew by 26% (page 10)
	Maintain the return on equity	ROE stable at 25% (page 10)
	Focus on cost-efficiency	Cost-to-income ratio increased to 35% and operating expenses grew by 24% (page 10)
	Responsible growth in loans and advances	Gross loan book increased to R36.3 billion (page 11)
	Maintain sound credit policies	Changes to credit granting criteria to adapt to unfavourable changes in the market (page 78)
Operational	Increase distribution network	39 new branches opened during the year (page 9)
	Improve business continuity and disaster recovery plans	Operational risk (pages 93 – 97)
	Recruit and retain employees to sustain business growth	99 employees appointed on average per month (page 9)
	Train and develop employees to support growth plans	R44.4 million spent on 36 686 training interventions (page 25)
Social	Support community development	Corporate social investment (page 107)
	Build a reputation as an employer of choice	Talent acquisition (page 24)
Environmental	Operate a business model that has a low environmental impact	Limited environmental impact with low risk (page 110)



Aiming to be the bank for at least

25%

of all primary banking clients by 2020

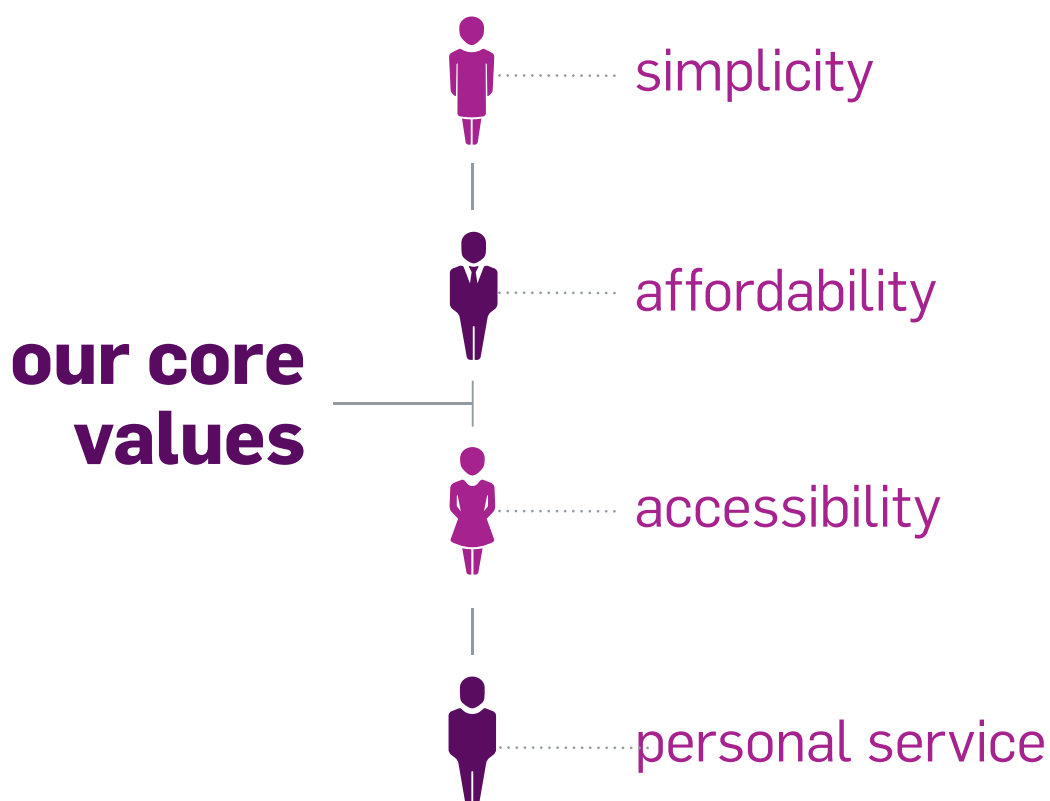
Over the short to medium term (1 – 5 years)

What we want to achieve	How	Targeted outcomes
Grow the Capitec Bank footprint	Increase the number of branches by an average of 50 per year. Increase the free-standing ATM and cash recycler network. Increase point-of-sale devices at merchants. Increase the use of internet and mobile banking. Increase direct selling.	Greater access to our banking solutions. Grow transaction income. Maintain cost-efficiencies. Increase access to retail funding.
Grow client numbers	Increase accessibility through a combination of unique positioning, product and compelling service experience. Offer a unique and compelling service experience that is personal. Launch a credit card.	The preferred retail bank for ALL South Africans.
Increase market share	Increase awareness of Capitec Bank and its product offer throughout all income groups. Capture the higher-net-worth individuals in the target market. Create trust through simplified and transparent banking.	Become the dominant retail bank in South Africa. Increased earnings and shareholder value.
Lower cost of credit to the client	Reduce internal cost of granting credit through enhanced and innovative technology. Grow client numbers to the critical mass that will enhance cost-efficiency. Maintain low-cost banking model to maintain cost-efficiency.	Optimal affordability for clients. Promotion of responsible lending and a healthy credit market. Increased competitive advantage.
Broad-based funding book	Offer realistic, sustainable and competitive returns.	An optimal mix of retail and on- and offshore wholesale funding, with a focus on long-term funding.
Contribute to the South African educational system	Implement a model in partnership with other like-minded institutions to produce better educated school-leavers who can either be employed or pursue tertiary education.	Support community development. Contribute to employability of South Africans.
Recruit and retain employees with potential	Develop and refine the remuneration and reward framework that supports the bank's skills attraction, engagement and retention strategy. Implement wellness initiatives and an integrated health strategy for employees.	Be an employer of choice.
Maintain low environmental impact	Consumer-focused, financial service business model.	Continue operating a business model that has a low environmental impact.

Over the long term (more than 5 years)

Capitec Bank's primary long-term objective is to become a preferred global retail bank.

What we want to achieve	How	Targeted outcomes
Virtual banking	Increase accessibility of internet and mobile banking. Encourage virtual money management by providing value adding internet and mobile banking functionality. Enhance the cost-effectiveness of internet and mobile banking.	Value creation for clients and all other stakeholders and sustainability of the business.



Focused leadership

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

Board of directors

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

Non-executive directors



**Michiel Scholtz du Pré
le Roux (65)**

BComm LLB

*Chairman of the board and the
directors' affairs committee*

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

Michiel was appointed to Capitec's board on 1 March 2001 and to Capitec Bank's board on 6 April 2000.



Petrus Johannes Mouton (38)

BComm (Maths)

*Chairman of the social and
ethics committee*

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

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



Riaan Stassen (61)

BComm (Hons), CA(SA)

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

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

Independent non-executive directors



**Reitumetse Jacqueline
Huntley (52)**
BProc LLB

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

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



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

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

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

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

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



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

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

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

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

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

**Chris Adriaan Otto (65)**

BComm LLB

Chairman of the human resources and remuneration committee

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

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

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

**Gerrit Pretorius (66)**

BSc, BEng, LLB, PMD

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

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

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

**Jacobus Pieter van der Merwe (66)**

BA, CTA, CA(SA)

Chairman of the audit committee (retired 20 March 2015)

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

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

**Jean Pierre Verster (34)**

Hons.B.Compt, CA(SA), CFA, CAIA

Chairman of the audit committee (appointed 23 March 2015)

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

Executive directors



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

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

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



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

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

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

Executive management committee

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



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

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



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

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



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

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



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

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



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

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



Christiaan Oosthuizen (60)
*Executive: information
technology*

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



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

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



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

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



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

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

Development members

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

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

Corporate values

Ethics

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

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

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

Human rights

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

Extract from Capitec Bank's statement of intent:

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

What is Capitec's integrated risk management process?

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



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



Integrated risk framework

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

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

Strategic, economic, operational, social and environmental objectives, as discussed in chapter 8 of this report, together with the material issues identified through interaction with stakeholders as discussed in chapter 4 of this report, form the basis for IRM. IRM is supported by ethics, performance metrics and incentives and the leadership provided through the governance structure.

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

The primary objectives of the framework are to:

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

Governance

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

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

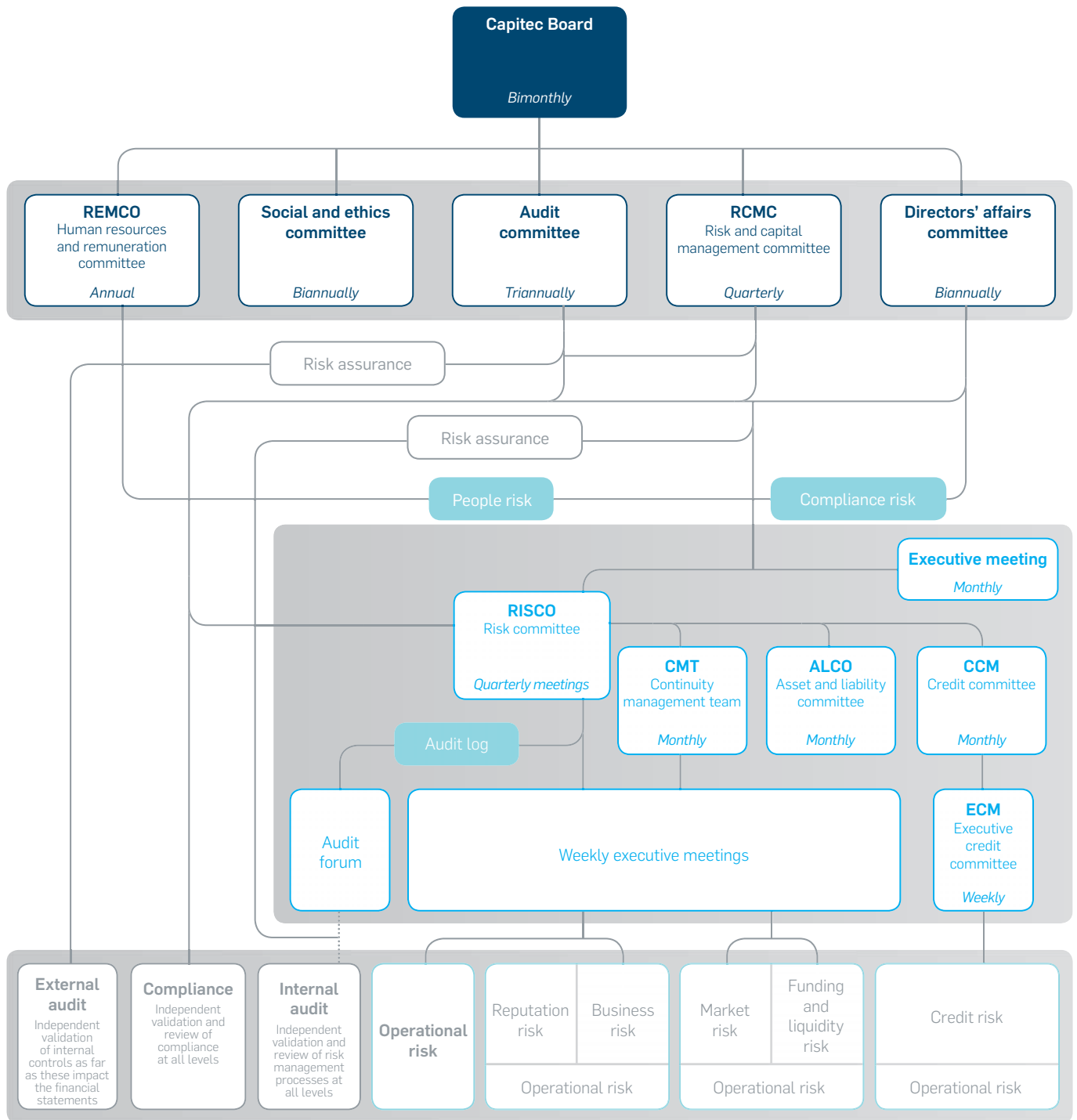
All the key principles set by King III have been applied during the reporting period, with minor exceptions.

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

Governance structure

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

GOVERNANCE STRUCTURE



The board of directors

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

Composition

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

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

Assessment of independence

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

Appointment process

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

Development

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

Performance assessment

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

The skills and expertise of the board are described in chapter 8 of this report.

Meetings and quorum

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

Committees

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

Board committee

Committee	Purpose	Composition	Quorum	Frequency and reporting
Audit committee	Responsible for financial disclosure and controls affecting this disclosure Custodians of corporate reporting, including the IAR – oversees the extent, format, frequency, content, quality, reliability, completeness and integrity of the IAR Considers the continued independence of the current auditor Recommends the appointment of external auditors, determines their fees and oversees the results of the external audit process Sets principles for the use of the external auditors for non-audit services	Independent non-executive directors JP van der Merwe (chairman) JD McKenzie NS Mjoli-Mncube Non-executive director PJ Mouton* Independent attendee DG Malan (external audit partner – PricewaterhouseCoopers Inc.) Management attendees J-HC de Beer (compliance officer) AP du Plessis (CFO) JJ Gourrah (internal audit) GM Fourie (CEO) CG van Schalkwyk (executive: risk management) By invitation All directors	At least 50%, but not less than two members	Meets three times a year
Directors' affairs committee	Evaluation of board effectiveness Senior management and board succession planning Corporate governance	All non-executive directors	At least 50% of members	Meets twice a year
EXCO	Operational decision-making Implementation of board-approved strategic decisions Ongoing approvals of administrative nature	GM Fourie (CEO) AP du Plessis (CFO) JE Carstens (executive: credit) CG Fischer (executive: marketing and corporate affairs) HAJ Lourens (executive: operations) NST Motjuwadi (executive: human resources) A Olivier (executive: card services and business development) C Oosthuizen (executive: information technology) CG van Schalkwyk L Venter (executive: business support centre) Two annually elected development members	At least three of the following: CEO, CFO, exec: risk management and exec: operations or replacement members as appointed by the EXCO	Meets twice a week with an extended meeting once a month
Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	RCMC (see page 73) Members of management JE Carstens GM Fourie CG van Schalkwyk	Majority of members	Meets as required

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

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

Attendance of meetings by board members

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

⁽¹⁾ Attendance by invitation.

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 2 of this report.

The Capitec Bank Holdings Share Trust and Capitec Bank Group Employee Empowerment Trust are consolidated for accounting purposes. Each of these trusts is governed by a board of trustees in terms of the respective trust deeds:

- The Capitec Bank Holdings Share Trust has two independent trustees.
- The Capitec Bank Group Employee Empowerment Trust has four trustees of whom two are independent and two are employees (elected by employees).

Company secretary

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

The qualifications and expertise of the company secretary are detailed in chapter 8 of this report. The directors' affairs committee has reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and has noted that the company secretary performed all formalities and substantive duties timeously and in an appropriate manner.

The committee confirmed its satisfaction in all instances. As the company secretary is not a director of any company in the Capitec group and has to date maintained a professional rela-

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

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

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



Independent assurance

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

External audit

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

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines the audit fee. Non-audit services rendered by the external auditors are limited to ad hoc tax advice and other assurance-related services within the parameters of a policy approved by the audit committee, limiting such expense to 40% of the annual audit fee. Details of amounts paid to the external auditor are included in note 23 to the annual financial statements.

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

Internal audit

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

responsibility of internal audit activity and is consistent with the Institute of Internal Auditors' definition.

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

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

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

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

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

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

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



Risk universe

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

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

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

Risk ownership

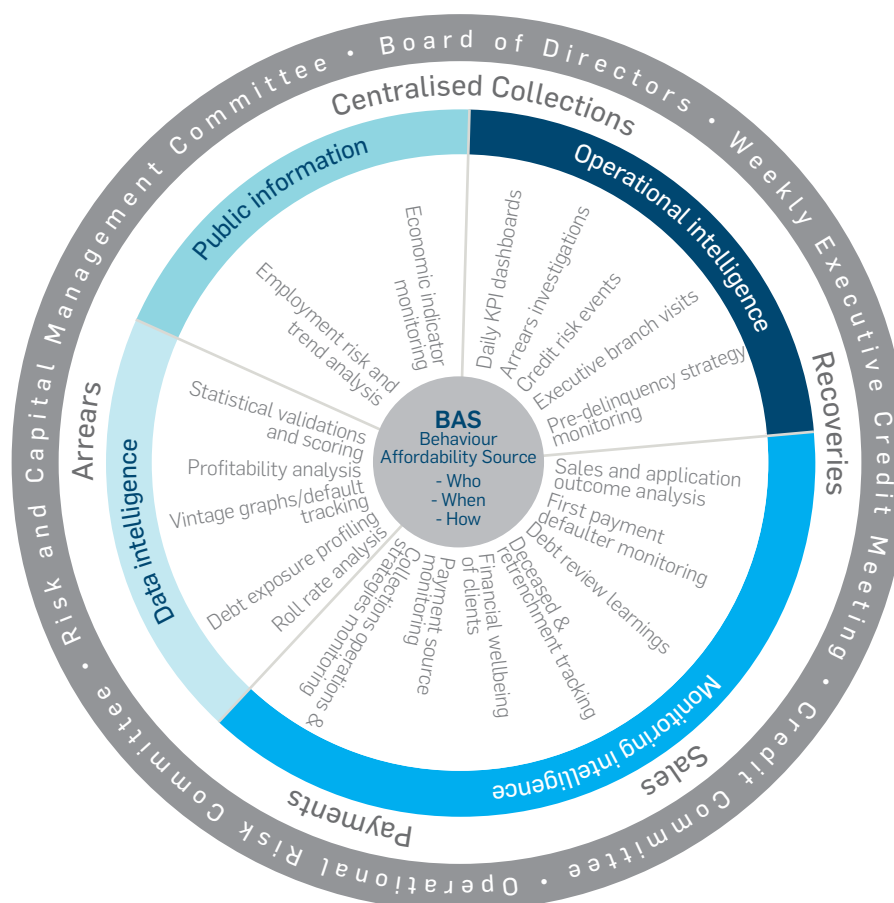
Heads of business carry the primary responsibility for the risks in the organisation, in particular with respect to identifying and managing risk appropriately.

Risk control

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

Independent assurance

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



Reputation risk

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

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

Centralised policy on media

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

Daily media monitoring

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

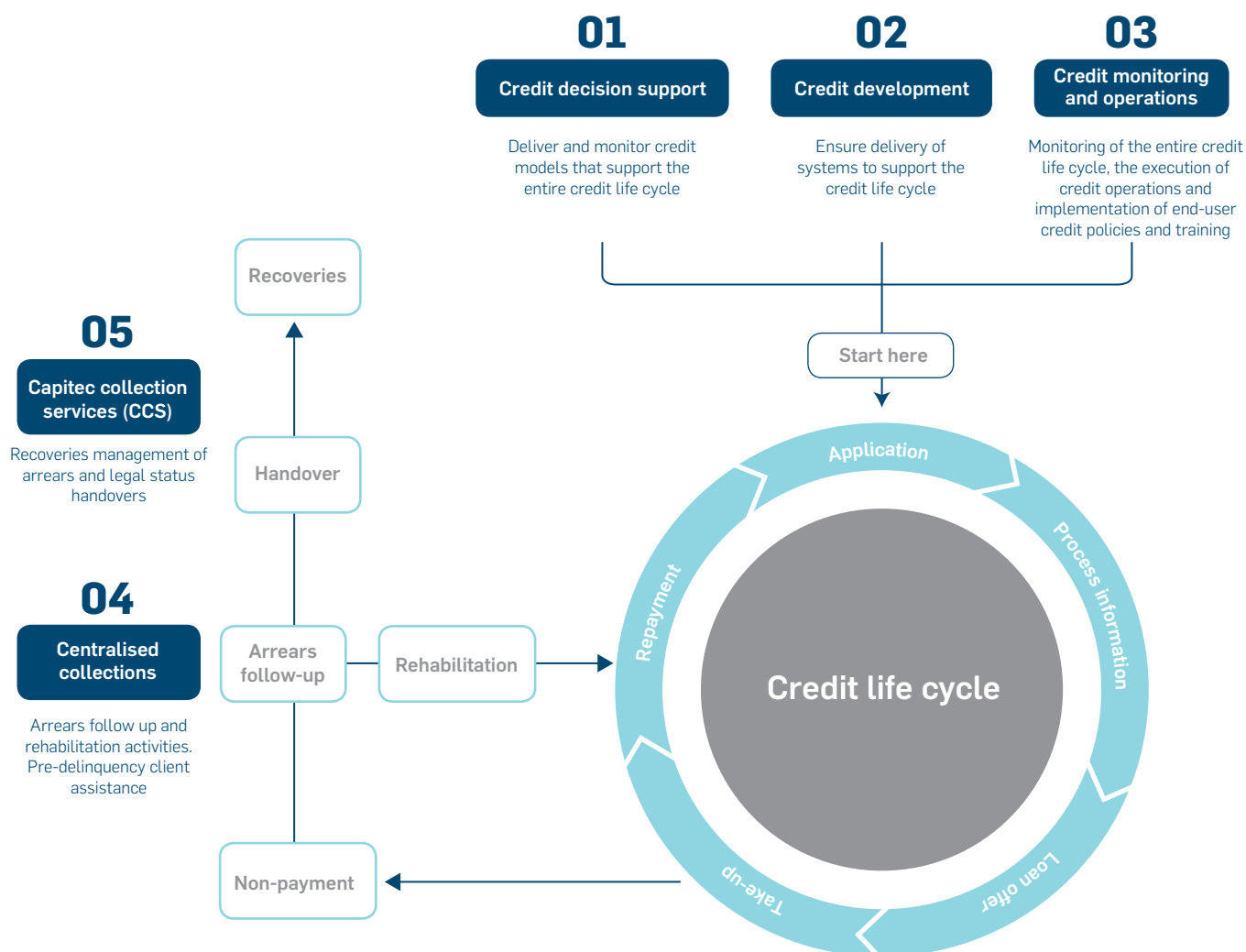
Credit risk

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

Governance

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

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



Capitec Bank's credit model

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

Granting credit

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

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

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

Collection

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

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

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

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

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

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



Recovery

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

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

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

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

Monitoring

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

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

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

Decision support

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

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

To ensure the ongoing strength and stability of the credit granting model monthly tests are performed. The key monthly measures used are:

- Gini coefficient (to assess the ability of the model to differentiate risk)
- Population Stability Indices and the Kolmogorov-Smirnoff Statistic (to assess stability)
- Bad rate tracking – to assess modelled expectation against actual experience
- Characteristic analysis of the main inputs (for example credit scores) using Gini and population stability measures.

The testing results are assessed against predefined minimum acceptable standards.

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

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

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

Impairment provisions

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

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

Development

Development and change management is a perpetual process through which strategic system enhancements are developed, coordinated and implemented. Effective management of development and change enables

Capitec Bank to progress strategically and effectively year on year and rapidly adapt to changes in the market.

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

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

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

Counterparty credit risk

Capitec has limited counterparty credit risk because it does not operate a trading book. The only exposures to counterparty credit risk are on hedges entered into to mitigate interest rate and currency risk in the banking book, and from time-to-time on resale investment transactions concluded as part of cash management activities. Refer also note 28 to the annual financial statements.

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.

The treasury management department limits the weighted average maturity of the cash portfolio to 90 days with a limit on individual assets of 365 days and maintains a healthy stock of highly liquid investments such as South

Prudent with provisions,
an arrears coverage
ratio of

196%



African National Treasury bills, SARB debentures and cash on call with highly rated banks. Other assets in the portfolio may include money market unit trusts of large fund managers (investing only in bank paper), fixed and notice deposit investments and occasional resale transactions and negotiable money market instruments of approved counterparties. The yield must be commensurate with any increase in risk. A hold-to-maturity approach is used.

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

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

Other credit risk

Corporate insurers

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

Suppliers

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



Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure ⁽¹⁾		Aggregate gross year-end exposure ^{(2) (4)}		Exposure post risk mitigation ^{(2) (3) (4)}		Risk weights ⁽⁵⁾
	28 Feb 2015	28 Feb 2014	28 Feb 2015	28 Feb 2014	28 Feb 2015	28 Feb 2014	%
On balance sheet							
Corporate ⁽⁶⁾	1 617 776	865 198	2 086 439	577 009	1 960 892	577 009	100
Sovereign ⁽⁷⁾	3 921 671	4 790 835	3 361 552	5 342 807	3 361 552	5 342 807	–
Banks (claims < 3 months original maturity)	2 745 677	4 265 805	2 411 444	3 677 372	2 411 444	3 677 372	20
Banks (claims > 3 months original maturity)	5 455 252	306 222	5 849 613	777 079	5 849 613	777 079	50
Banks (Derivatives > 3 months A1 to Baa3)	162 539	177 802	57 905	223 746	57 905	223 746	50
Retail personal loans							
– performing	33 855 375	31 267 030	33 479 975	30 754 437	33 479 975	30 754 437	75
– impaired ⁽⁸⁾	2 673 922	2 417 236	2 847 588	2 921 125	2 847 588	2 921 125	100
Subtotal	50 432 212	44 090 128	50 094 516	44 273 575	49 968 969	44 273 575	
Off balance sheet							
Retail personal loans							
– committed undrawn facilities	2 679	5 398	–	5 250	–	5 250	75
– conditionally revocable commitments ⁽⁹⁾	388 088	398 689	469 496	440 423	469 496	440 423	–
Total exposure	50 822 979	44 494 215	50 564 012	44 719 248	50 438 465	44 719 248	

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

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

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

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

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

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

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

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

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

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

Rating grades and related risk weights

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

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

Market risk

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

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

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

Governance

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

Interest rate risk

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

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

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

Fixed interest rate retail loans

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

When interest rates rise Capitec loan clients are protected from increasing

instalments as their loans are contracted at fixed interest rates, so their instalments stay the same.

The impact of the liquidity strategy

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

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

strategy. This locks in a longer-term gross yield but contributes to the repricing mismatch. However, this deliberate mismatch is accepted and is addressed by monitoring the overall net yield on cash management activities.

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

The effect of shareholders' equity

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

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

Management of interest rate risk

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

Regulatory sensitivity analysis of equity – 200 basis point shift

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

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

rates. The cost of swapping floating exposure is assessed against the probability and quantum of costs that could arise from moderate to large interest rate shocks.

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

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

ALCO approves interest rate pricing on funding and loan products, transaction fees and authorises any swap transactions. Refer also note 28 to the annual financial statements.

Equity risk

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

Currency risk

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

Currency risk has minimal impact on Capitec Bank's operations as they are within South Africa. Imported capital equipment and technological support services result in limited exposure to currency fluctuations. However, these transactions are fully hedged by means of forward exchange contracts as and when they are undertaken. Any borrowing done in foreign currency is fully hedged using currency swaps. Refer also note 28 of the annual financial statements.

Hedging of market risk

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

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

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

Refer also notes 40 and 41 to the annual financial statements.

Business risk

This is the risk that:

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

Governance

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

Daily operational management

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

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

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

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

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

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

Strategic management

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

Funding and liquidity risk

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

Governance

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

Risk appetite

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

Risk appetite measures

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

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

Monitoring

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

Daily cash management

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

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

Funding management

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

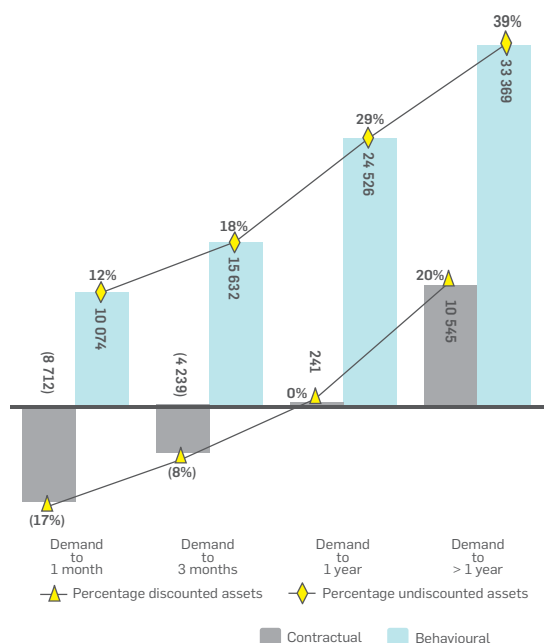
Funding rates

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

Managing funding concentrations

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

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



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

Liquidity measurements

Contractual and behavioural liquidity mismatches

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

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

The LCR

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

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

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

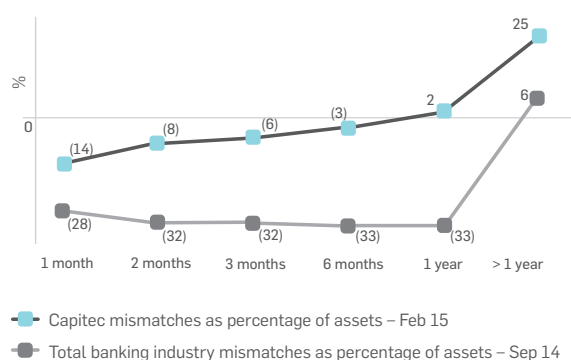
⁽¹⁾ As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.

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

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

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

CAPITEC MISMATCH AS A PERCENTAGE OF ASSETS RELATIVE TO THE INDUSTRY



The NSFR

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

NSFR – Group	2015	2014
NSFR (%)	138	132
Required stable funding (R'm)	31 257	29 272
Available stable funding (R'm)	43 215	38 631

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

Capital management

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

Capital to manage risk and growth

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

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

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

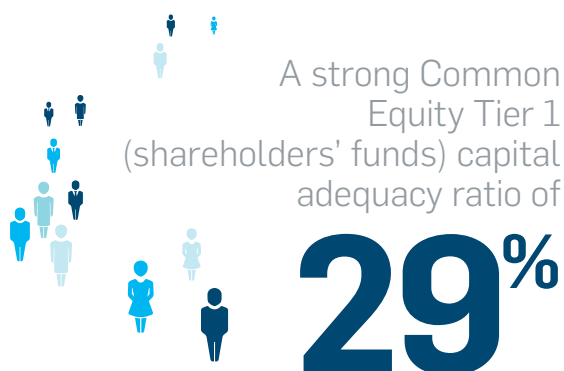
Management of demand-side risk involves monitoring the growth in risk-weighted assets which drives the growth in the regulatory and own internal capital requirements.

Capitec's principal policies when managing capital:

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

Capital for sustainability

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



Governance

ALCO assesses capital adequacy on a monthly basis and reports to the RCMC quarterly. Emphasis is placed on the accuracy of the capital forecast which is rebased on most recent month actual data and key forward-looking assumptions are adjusted monthly as is necessary. Capital adequacy and the use of regulatory capital are reported to the SARB monthly, in line with the requirements of the Banks Act. Quantitative information on capital adequacy is presented below and in note 28 to the annual financial statements. Stakeholders are referred to the website (www.capitecbank.co.za/investor-relations) where full details regarding the regulatory disclosures, as required by the Banks Act, are provided.

ICAAP

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

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

Determining capital sufficiency

The ICAAP reviews the historical, current and future capital positioning from a regulatory and shareholders' or internal capital perspective. An essential element of the process is the forecasting capital supply requirements, including 'stressing' the expected forecast to determine

the sufficiency of capital in a downturn of the economic cycle. Typically, regulatory capital demand requirements increase, while qualifying capital supply slows down or decreases in times of economic downturn. The process involves planning appropriate management actions to address any anticipated capital needs to weather a downturn in the cycle. The board considers the results of the stress-testing exercises developed as part of the ICAAP.

Approach to raising capital

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

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

Planning a strong return on equity

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



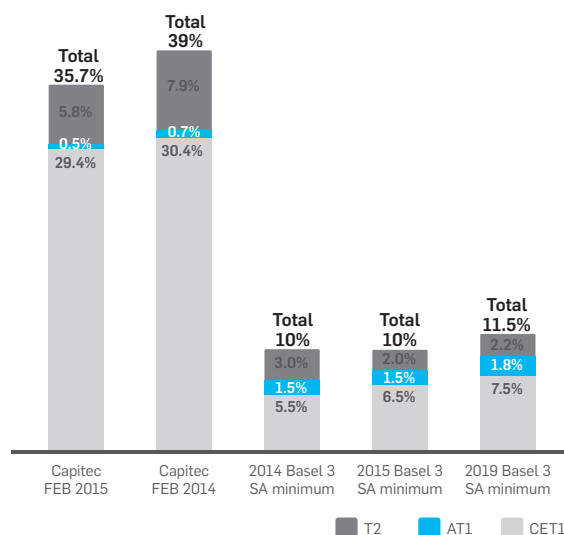
Basel calculation methods for credit and operational risk capital

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

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

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

CAPITAL ADEQUACY BY TIER



- CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.
- AT1 – Additional Tier 1 capital – Capitec's perpetual preference shares qualify as entry-level AT1 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. 20% of total preference shares outstanding at 1 March 2014 that were already subject to phase-out rules were redeemed during the 2015 financial year.
- T2 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank 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 2015 Basel 3 SA minimum includes the South African country buffer of 2% (2014: 2%; 2019: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.
- The 2019 Basel 3 SA minimum includes the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.
- Excluded from the SA minima are the Basel 3:
 - Bank-specific buffers – Bank-specific buffers including the ICR for specific bank risk and D-SIB buffers. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. Any D-SIB requirement will be phased in over four years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis will not be more than 3.5%.
 - A countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth. Implementation commences in January 2016.
 - Haircuts to be applied against a deemed surplus attributable to minority and third-party capital issued by subsidiaries, which began phasing in from 2013 at 20% per year.

The impact of Basel 3 on capital adequacy measurement

Loss absorbency

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

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

Subsidiary third-party capital

Basel 3 limits the contribution of preference share capital and subordinated debt issued by subsidiaries, in the group 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 5 times CET1 capital as at the end of the reporting period (2014: 5 times CET1). The maximum allowed leverage in South Africa is 25 times CET1 capital. Further detailed information on the calculation of the leverage ratio is available on the bank's website <https://www.capitecbank.co.za/investor-relations>. At 5 times equity Capitec is conservatively leveraged relative to the average of the South African banking industry, which has an average leverage ratio of 13 times equity (SARB aggregated data December 2013).

Restrictions on the transfer of regulatory capital

Given Capitec'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.

Operational risk

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

Governance

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

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

Operational risk measurement, processes and reporting

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

Enhancing the control environment

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

Assessing risk

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

Operational risk mitigation programmes

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

Fraud policy and mitigation strategy

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

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

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

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

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

Insurance

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

Business continuity

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

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

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

Policies and procedures

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

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

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

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

Compliance risk

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

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

The compliance function

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

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

The area of focus

- The significant pieces of legislation identified in Chapter 5 are the main focus of the independent compliance function and management system activities of the bank. This approach achieves a healthy balance of appropriate and sufficient compliance and efficient interaction with stakeholders and business relative to our business activities. Material compliance challenges facing the bank include:
- dealing with the FICA (Financial Intelligence Centre Act) requirements regarding client identification and verification, record retention, client due diligence and client maintenance;
- protection of personal information legislation;
- exchange control regulation; and
- continued and high levels of compliance with credit legislation to create and sustain a responsible and compliant credit environment.

Reporting

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

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

Interaction with the SARB

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

The SARB imposed an administrative sanction of R5 million for non-compliance with section 28 (Cash Threshold Reporting) of the Financial Intelligence Centre Act (FICA). The compliance reporting breach was detected by the compliance department

and representations to the SARB in terms of section 45 of the FICA were submitted and the system reporting deficiencies were identified and rectified.

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

Information technology risk

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

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

Protecting our clients' information

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

IT governance framework

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

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

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

IT compliance

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

Information security management system

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

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

Occupational health and safety

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

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

Stress-testing and contingency planning

Stress-testing programme

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

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

Contingency planning

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

Liquidity recovery plan

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

Capital recovery plan

A capital recovery plan detects possible capital stress occurrences and provides guidance on appropriate actions to respond to early warning

signs. As it is difficult to obtain additional capital in times of stress, Capitec has a proactive and preventative approach to capital procurement. Management makes use of positive market conditions and positioning to obtain additional capital, when it is available, as the pricing is favourable. Communication with stakeholders is included in the actions covered.

Operational risk business continuity

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

Employee wellness

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

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

Managing chronic and life-threatening diseases

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

Managing HIV/AIDS

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

Through the group's medical aid scheme, HIV-positive employees have access to an HIV care programme. Access to anti-retroviral medicine, multivitamins and vaccines necessary for cost-effective treatment of the condition are available to employees through this programme. Employees can also benefit from the support of the employee assistance programme which includes HIV/AIDS

education, counselling and support via telephone counselling, an online programme and face-to-face counselling. Regular employee awareness campaigns are conducted to inform employees of the assistance Capitec Bank can offer.

Remuneration risk

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

Governance

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

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

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

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

shareholder interests and acceptable risk-taking. REMCO is responsible for:

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

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

The principles for determining increases

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

Employee remuneration

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

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

the annual salary budget submitted for approval to the board.

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

Risk and compliance employees' remuneration established independently

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

Director emoluments

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

The remuneration of the executive directors and the fees paid to the non-executive directors for the 2015 financial year are detailed in note 30 to the annual financial statements. Fees for the 2016 financial year will be submitted for consideration by the shareholders at the annual general meeting scheduled for 29 May 2015. The proposed fees are as follows:



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

The permanent members of the executive management committee are the key decision-makers in the bank and as such they fall within the category of prescribed officers as defined in the South African Companies Act. The executive directors are the prescribed officers of Capitec. Refer note 30 to the annual financial statements for further disclosure. The composition of the committee is detailed in chapter 8 of this report.

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

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



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

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

Components of remuneration

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

<i>Basic salary (cash settled)</i>		
All employees		Fixed
Strategy:	Fixed remuneration packages ensure that the total guaranteed cost of employment is clearly defined and controlled. This structure prevents open-ended risks and/or liabilities.	
Policy:	The remuneration package is continuously benchmarked against competitors and the market.	
Terms and benefits:	Employees have access to the following benefits: • Leave • Partially paid maternity leave • Retirement funding • Healthcare • Disability cover • Death cover • Funeral cover • Education cover for dependants • Financial wellness programme • Employee assistance programme • Education assistance programme • Flexible working hours, where operationally productive and conducive to performance	
<i>Annual performance bonus (cash settled)</i>		
All employees (excluding senior management bonus plan participants, but including those on the executive share-based plans)		Variable
Strategy:	The annual performance bonus plan was established to fulfil a number of key business objectives such as: • Aligning employee interests with shareholder interests • Improving business performance • Supporting stakeholder ideals by allowing employees to share in the success of the business.	
Policy:	This bonus plan is linked to Capitec's year-on-year growth in HEPS, including a challenging minimum target below which no bonus is awarded to serve as a non-performance measure. The pre-defined target, communicated at the beginning of the 2016 financial year, is 15% growth in headline earnings per share. In 2015, as operational staff already participate in variable quarterly sales incentive plans a weight of 50% of the calculated amount is applied in calculating the benefit.	
Terms and benefits:	The annual performance bonus is determined by applying pre-set reward percentages, equal for all participants, that increase along ranges of increased growth in HEPS achieved, to each participant's fixed monthly remuneration package. This bonus is awarded ex-post in April, based on the final audited year-end results. No bonus is paid if the minimum predefined target is not met.	

Senior management performance bonus (cash settled)

Senior management (excluding strategic management), 80 participants during the reporting year

Variable

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

Share option scheme (equity settled)

Members of the executive management team and a limited number of senior managers whose delivery on strategic targets is regarded as critical to achieving annual objectives (strategic management). The executive share-based plan had 60 participants during the year

Variable

Strategy	The intention of the share-based plans is to retain key employees and incentivise performance aligned with the interests of all stakeholders of the organisation. This strategy ensures that all parties strive towards a common goal, increasing the value of the business. The executive share-based plans are intentionally simplified to avoid a short-term focus as a result of overly complex objectives. REMC0 reviews and approves the list of eligible participants and quantum of options and SARs to be issued to participants, aligned to individual responsibility and performance.
Policy	Eligible employees are granted options to subscribe for ordinary shares in Capitec at an option price equal to the market value of the share, being the 30-day weighted average value per Capitec share on the JSE immediately preceding the day on which the options are granted. The employees are entitled but not obliged to subscribe for the Capitec shares at the predetermined exercise price.

**Terms
and
benefits:**

For financial years ended 2014 and prior, options and SARs are granted annually on an equal basis (50% options, 50% SARs).

In 2015 the ratio of options to SARs was 25% to 75%. The SARs were granted on a fully discounted basis, while the options were granted on the normal 30-day weighted average method.

For share options and SARs granted in financial years ended 2014 and prior, the maturity profile starts after three years in tranches of 25% per year. For those options and SARs granted in the 2015 financial year the maturity profile starts after two years at 25% per year.

Participants have a six-month period after the date on which the options and SARs mature during which they can be exercised. Unless REMCO resolves otherwise, options and SARs are forfeited if the participant leaves the employ of the company before they have matured and been exercised. This ensures long-term relationships with executive management.

As the performance of the share options and SARs is dependent on the market price of Capitec shares, there is an inherent clawback mechanism in these reward instruments. Should the company not perform as expected, it is highly likely that market discipline would result in a decline in the share price and a lower remuneration, or possibly zero remuneration if the instruments are out of the money, for holders.

Refer notes 37 to 39 to the annual financial statements for details regarding the executive share-based plans.

Share appreciation rights scheme (cash settled)

Policy:

SARs are granted to eligible employees and are cash-based but linked to equity performance. Dilution of issued share capital is thus limited as no shares are transferred to the participants. The strike price of the SARs granted in financial years 2014 and prior was determined in accordance with that of share options. In 2015 the strike price for SARs was fully discounted.

Quarterly sales incentive plans (cash settled)

Branch employees and sales teams (excluding senior sales managers)

Variable

Strategy:

The quarterly sales incentive plan aims to incentivise branch and sales employees to assist in the growth of the business.

Policy:

Rewards are based on the achievement of predetermined targets. Performance targets include sales targets (including loan sales, transactional banking and mobile banking) appropriately balanced with arrears and service efficiency targets.

**Terms
and
benefits:**

Qualifying conditions include:

- On-standard performance for the period under review
- Clear disciplinary records/conduct during the period under review
- Timeous completion of scheduled learning sessions
- Regular work attendance during the period under review.

Remuneration analysis

Capitec Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	11	84	10 166	10 261	Key performance indicators
Remuneration awards						
Fixed	R'000	37 852	99 114	1 512 061	1 649 027	
Cash remuneration	R'000	37 852	99 114	1 512 061	1 649 027	Note 23
Variable	R'000	263 346	167 195	162 953	593 494	
Cash staff performance bonus	R'000	11 997	1 175	162 953	176 125	
Cash bonus bank	R'000	–	93 893	–	93 893	
Share options ⁽¹⁾	R'000	127 173	36 166	–	163 339	Note 23
Share appreciation rights ⁽¹⁾	R'000	124 176	35 961	–	160 137	Note 23
Variable remuneration						
Employees receiving awards	Number	11	84	10 166	10 261	
Non-deferred	R'000	11 997	32 734	162 953	207 684	
Deferred	R'000	251 349	134 461	–	385 810	
Outstanding deferred remuneration	R'000	161 398	101 606	–	263 004	
Cash bonus bank	R'000	–	64 268	–	64 268	Note 16
Share options ⁽¹⁾	R'000	50 075	18 827	–	68 902	Note 38
Share appreciation rights ⁽¹⁾	R'000	111 323	18 511	–	129 834	Note 39
Deferred remuneration paid out	R'000	282 213	107 019	–	389 232	
Cash bonus bank	R'000	–	9 519	–	9 519	
Share options ⁽¹⁾	R'000	173 229	47 854	–	221 083	
Share appreciation rights ⁽¹⁾	R'000	108 984	49 646	–	158 630	
Employees' exposure to adjustments	R'000	161 398	101 606	–	263 004	
Implicit adjustments	R'000	161 398	37 338	–	198 736	
Post explicit adjustments	R'000	–	64 268	–	64 268	
Total remuneration exposed to adjustments	R'000	161 398	101 606	–	263 004	
Implicit adjustments	R'000	161 398	37 338	–	198 736	
Post explicit adjustments	R'000	–	64 268	–	64 268	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

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

Alignment of risk and reward

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

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

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

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

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



What is Capitec doing to give back?

*Business contributes to
economic welfare and has
a role to play in human
progress.*



Communities

Capitec's founding vision was to provide essential banking services to all South Africans at an affordable price.

Banking has been made more accessible to communities, including those in rural areas, by opening 39 more branches during the year, in areas where the majority of South Africans work, shop and live.

The 158 (2014: 90) mobile units, that served 106 087 (2014: 75 000) clients during the year, aim to alleviate the frustration of full-time workers who cannot do their banking during normal business hours. This service also assists clients who are unable to travel to a branch.

Capitec Bank's low-cost, simplified product offers revolutionised banking for the benefit of consumers and created the opportunity for consumers to access affordable credit responsibly. In this way Capitec Bank has contributed to, and will continue to contribute to, the economic welfare and development of communities.

Employment

Capitec's growing branch network and support services continue to create employment opportunities for the communities in which it operates. The employment of school-leavers from the local community promotes the development of society.

Since establishment, Capitec Bank has created 10 261 jobs (2014: 9 070) and, on average, 99 new positions were created per month during the reporting period (2014: 64). Strategy strongly promotes that branch employees be recruited from communities in surrounding areas to ensure that employees are fluent in the language spoken in the communities that they serve.

Capitec Bank's approach to talent acquisition and management, learning and development, employee relations and employment equity, which all facilitate development and further education of employees and so supporting the ideal of societal upliftment, is detailed in chapter 5 of this report.

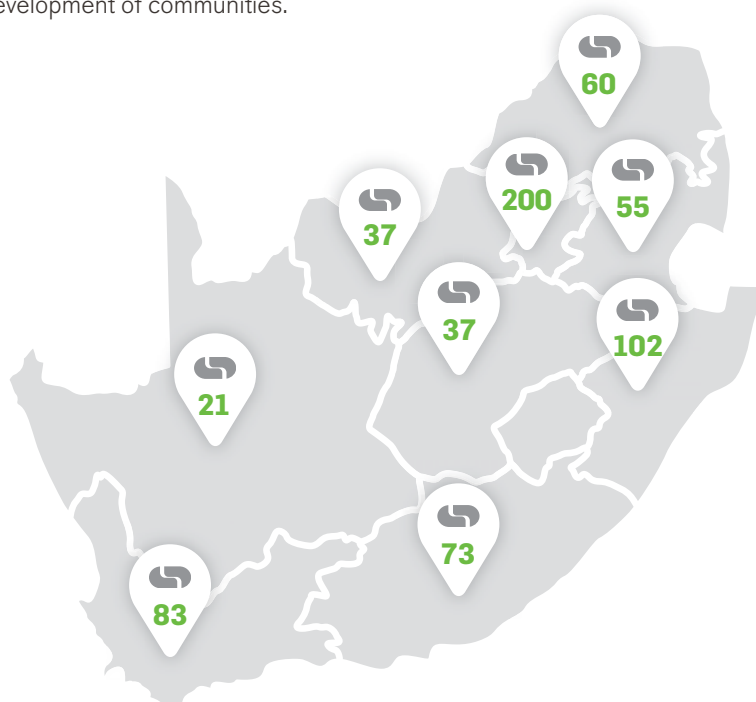
Corporate social investment

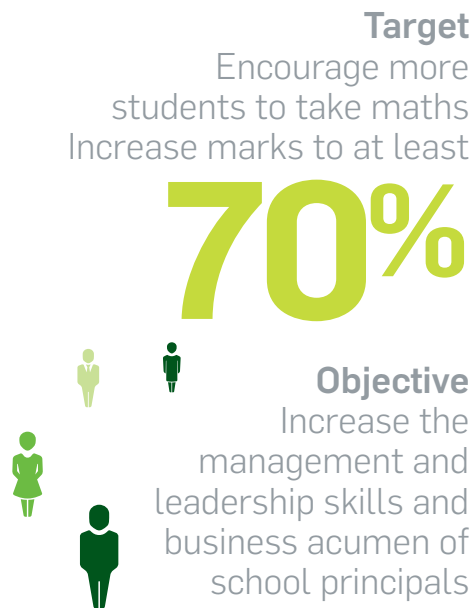
CSI programmes have an important role to play in South Africa where social needs are considerable.

Our CSI is closely aligned with our core business objectives. As a bank with aspirations of being the preferred retail bank in South Africa, we need a well-educated workforce that can deliver innovative banking solutions and a well-informed client base that is equipped to make sound financial decisions. For this reason we have developed programmes and formed partnerships with various organisations in the education field. These partnerships align with the overarching objective of being a champion of better quality education.

Our goal is to promote social development in South Africa through a financial life skills programme for consumers and to provide access for learners at under resourced schools to supplementary school programmes. We believe everyone needs the minimum numeric and language skills to make a meaningful contribution to the economy and to his/her immediate community.

Capitec's CSI programme focuses on three main areas of support, namely high school education, financial literacy and community support (donations).





Education

Education is supported through partnerships with schools, learners, parents, the Department of Basic Education and tertiary institutions. Our CSI programmes include support for maths learners in Grade 10 to 12, holistic support through tutoring and mentoring and school management support for principals.

Bursaries – high school learners

The programme rewards talented but under-resourced learners who study maths at school, by paying for their annual school fees. In 2015, 336 learners from 64 schools qualified for bursaries (2014: 343 bursaries were awarded to learners from 68 schools). Winter and spring school during school holidays further assists learners.

Ikamva Youth

Ikamva Youth is a volunteer-driven, youth-led NGO equipping learners from disadvantaged communities with skills and resources to access tertiary education and/or employment opportunities once they matriculate. The sponsorship entails funding, capacity-building within Ikamva Youth and scaling the programme to additional regions. Their work has expanded from three to five provinces (Western Cape, KwaZulu-Natal, Gauteng, Eastern Cape and North West Province) and includes ten townships with more than 1 000 learners from Grade 8 to 12 participating in the programme. We will fund Ikamva Youth over the next five years with financial and other resources to expand the model to more areas.

All participants in Ikamva Youth are required to study pure maths, and for the past three years, 70% of participants have accessed tertiary education.

Management programme for school leaders

Bursaries have been granted to 22 principals (2014: 24 principals) studying for a postgraduate diploma in Management Practice through the Graduate School of Business at the University of Cape Town.

Financial literacy

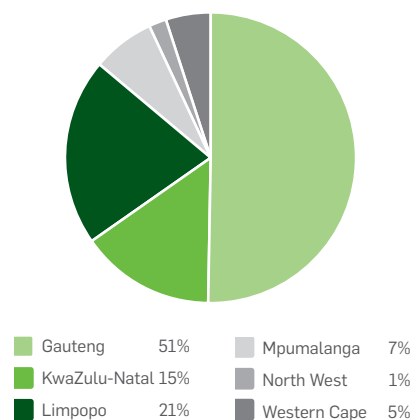
Financial life skills programme

Generic financial skills training is delivered at targeted worksites on our behalf by Seta-accredited suppliers.

The aim is to empower consumers to make better financial decisions and understand the consequences of bad debt and not honouring loan repayments.

During the 2015 year we trained more than 5 000 people countrywide. The following graph sets out the proportion of learners trained per province:

NUMBER OF LEARNERS TRAINED



Teach children to save campaign

The programme is the financial literacy and savings initiative of the banking and broader financial sector and is designed to highlight the importance of instilling a culture of saving in our youth.

During the year, 13 Capitec Bank volunteers reached 1 089 learners from 17 schools.

Community support

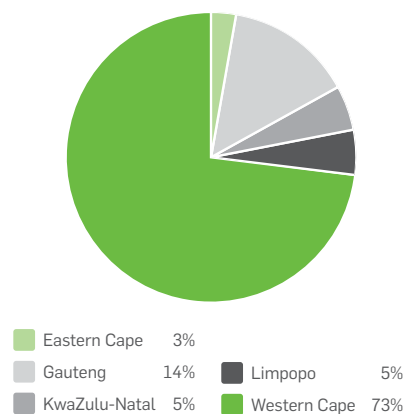
Sponsorships

We sponsor initiatives focusing on maths. This year we sponsored the Educate Revision programme for Grade 12 learners, National Science Week, The University of Cape Town's Math competition and the Nelson Mandela Metropolitan University MathMxit competition.

Donations

The focus is on support to organisations and institutions that actively contribute to the care and safe refuge of children who have been abused, neglected, abandoned and orphaned, women who have been victims of abuse and organisations caring for the disabled.

DONATIONS BY PROVINCE



B-BBEE procurement to total measured procurement spend (TMPS) is

83%

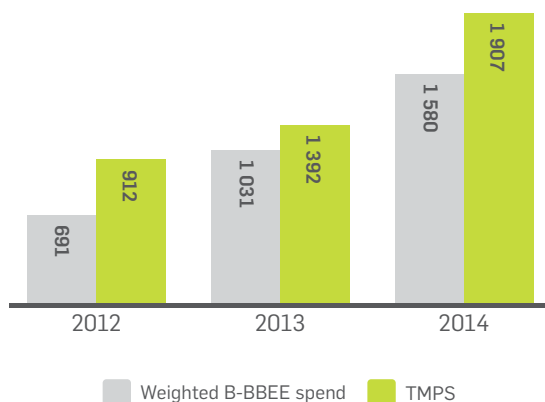
compared to 74% for the previous reporting period

Suppliers

Capitec Bank subscribes to the Codes of Good Practice issued under the Broad-based Black Economic Empowerment Act, 2003.

It has improved its rating to a level 5 contributor and received a B-BBEE preferential procurement recognition of 80%. The scorecard was verified by AQRate Verification Services. The certificate for the period is available at www.capitecbank.co.za/investor-relations/shareholder-centre.

PROCUREMENT SPEND (R'm)



Compliance with financial sector code

Capitec achieved all of the available 12 points in the targeted investment component of the empowerment financing element through reaching its allocated target by providing financing for affordable housing to clients. The total outstanding balance for qualifying loans extended for affordable housing was R1.7 billion on 28 February 2014.

The total indirect black ownership (measured as the economic interest held by black people) was 25.24% as at October 2014 (2013: 25.5%).

The environment

South Africa, in accordance with the global focus on climate change, is committed to reducing domestic GHG emissions by 34% by the year 2020 and 42% by the year 2025. Corporate entities are the largest contributors to greenhouse gas emissions and, for this reason, all corporates have a responsibility to contribute to this effort. Capitec acknowledges this responsibility and the manner in which we live our core values underpins this responsibility.

Capitec Bank has adopted a practised strategy to reduce its carbon footprint. This strategy is supported by the board and management of the bank. Our strategy is largely focused on efficient electricity management, as this is the single largest contributor to our carbon footprint.

Due to the nature of its products and services, Capitec Bank is a low contributor to overall GHG emissions with an associated limited impact on the environment. This fact, however, does not reduce our responsibility to continuously evaluate the way we do things and the associated impact our actions have on the environment. We continuously evaluate how we can evolve our processes to benefit both our clients and other stakeholders. The natural outflow from this ongoing improvement cycle is the efficient use of and saving on the use of scarce resources. An example would be the benefit received from our service project roll-out that limits paper usage and travelling due to the centralisation of certain verification processes.

Governance

The social and ethics committee monitors the group's activities with regard to environmental matters and these activities include the following:

Electricity

Capitec is reliant on Eskom for all its electricity requirements. During the year, 27 684 MWh (2014: 25 231 MWh) electricity was consumed.

Paper

Capitec only purchases paper approved by the FSC and attempts to source local products, considering cost-effectiveness.

Waste and recycling

Employees at head and regional offices are required to recycle paper in special paper bins and are encouraged to use special bins provided for recyclable materials. The primary focus is to recycle paper and tins. During the year 7 610 kg (2014: 6 933 kg) paper and 469 kg (2014: 703 kg) tins were recycled.

Electronic equipment are disposed of and recycled by accredited third parties. In total 7 531 kg of electronic equipment was recycled during the year.

Carbon footprint

Methodology

- The GHG Protocol – Corporate Accounting and Reporting Standard (revised edition).
- Emission conversion factors as published by the DEFRA.
- Operational control approach.
- The 2012 financial year was selected as base year.
- The 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2014.

Assumptions

- The calculation is limited to Capitec Bank. All other group entities are considered immaterial.
- Employee commute is excluded due to lack of data.
- Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2015 was based on accurate records. Some instances required the use of averages due to certain electricity usage data not being available. Such instances were, however, very limited and had an immaterial impact.

Target

- To reduce, or at least remain constant, the scope 1 and 2 emissions per full-time employee.

Carbon footprint for the 2012 base year and 2015 reporting year

GHG Protocol Scope		2015	2012 baseline
Scope 1: Direct emissions from		399.67	136.10
Fuel used in directly controlled or owned equipment	CO ₂ e tonnes	10.13	1.18
Fuel used in directly owned or controlled vehicles	CO ₂ e tonnes	96.66	72.42
Air-conditioning and refrigeration gas refills	CO ₂ e tonnes	292.88	62.50
Scope 2: Indirect emissions from purchased electricity		27 684.02	22 971.05
Purchased electricity – Eskom	CO ₂ e tonnes	27 684.02	22 971.05
Total scope 1 and 2		28 083.69	23 107.15
Scope 3: Indirect emissions from:		6 349.91	5 016.33
Business travel – Rental vehicles	CO ₂ e tonnes	46.87	45.50
Business travel – Commercial Airlines	CO ₂ e tonnes	1 878.74	1 703.22
Business travel – Employee-owned vehicles	CO ₂ e tonnes	2 523.96	2 007.59
Product distribution – Cash in transit	CO ₂ e tonnes	1 012.52	857.64
Paper usage	CO ₂ e tonnes	887.82	402.38
Total scope 1, 2 and 3		34 433.60	28 123.48

Intensity footprint		2015		2012 baseline	
GHG Protocol Scope		Per full-time employee	Per m ² floorspace	Per full-time employee	Per m ² floorspace
Scope 1 emissions	CO ₂ e tonnes	0.04	0.00	0.02	0.00
Scope 2 emissions	CO ₂ e tonnes	2.70	0.15	3.19	0.15
Total	CO₂e tonnes	2.74	0.15	3.21	0.15

The carbon footprint is not subject to independent assurance.

Although there was a 22% increase in the overall footprint between the baseline and current year emissions, there was a 15% (for scope 1 and 2 emissions) reduction in the footprint measured according to the intensity footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.



**simplicity
delivered
transparently
gives clients
control**

What are
the financial
results for
the year?





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<i>Certificate by the company secretary</i>	<i>page 116</i>
<i>Audit committee report</i>	<i>page 117</i>
<i>Directors' report</i>	<i>page 118</i>
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<i>Statements of comprehensive income</i>	<i>page 122</i>
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The preparation of the audited consolidated annual financial statements was supervised by the chief financial officer, André du Plessis, CA(SA)

Statement of responsibility by the board of directors

Capitec Bank Holdings Limited and its subsidiaries (the 'group')

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

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group and 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 companies to enable the directors to

ensure that the financial statements comply with relevant legislation.

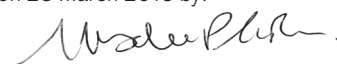
Capitec Bank Holdings Limited operated in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded 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 group or any company in the group will not continue as a going concern in the foreseeable future. The viability of the group is supported by the annual financial statements.

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

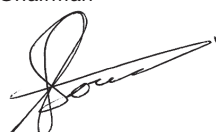
The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 119.

The annual financial statements set out on pages 116 to 183 were approved by the board of directors and signed on its behalf on 23 March 2015 by:



Michiel le Roux

Chairman



Gerrie Fourie

Chief executive officer

Certificate by the company secretary

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



Christian van Schalkwyk

Stellenbosch

23 March 2015

Audit committee report

Capitec Bank Holdings Limited and its subsidiaries (the 'group')

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

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

The committee's responsibilities include statutory duties in terms of the Act, as well as responsibilities assigned to it by the group's board of directors.

The committee's terms of reference are determined by a board-approved charter and are detailed in the corporate governance review.

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

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees

for the 2015 financial year.

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

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

- Considered the sustainability information as disclosed in the integrated report, which is the result of a combined assurance model, and satisfied itself that the information is reliable

and consistent with the financial results. The committee, at its meeting held on 23 March 2015, recommended the integrated report for approval by the board of directors.

- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties.
- The committee approved the internal audit charter and the annual audit plan.
- The committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself that the group financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).



Chris Otto
Acting Chairman
23 March 2015

Directors' report

Year ended 28 February 2015

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

Nature of the business

Capitec Bank Holdings Limited ('Capitec' or 'the company') was incorporated in South Africa on 23 November 1999 and registered as a bank controlling company, as envisaged by the Banks Act, 1990, on 29 June 2001. Capitec was listed in the Banks sector of the JSE Limited on 18 February 2002.

The company holds 100% of its principal subsidiary, Capitec Bank Limited ('Capitec Bank'). 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 and the group are fully disclosed in the annual financial statements and commentary is provided in the chief financial officer's report, which is included in the integrated report.

Share capital

A total of 328 996 ordinary shares were issued during the year ended 28 February 2015 bringing the number of shares in issue to 115 626 991. The shares were issued pursuant to the settlement of share options in terms of the share incentive scheme, which is detailed in the notes to the annual financial statements.

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

Dividends to shareholders

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

	2015	2014
Ordinary dividend (cents per share)		
Interim	246	203
Final	590	460
Preference dividend (cents per share)		
Interim	380.64	357.06
Final	382.23	354.67

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

Subsidiaries and associates

Information relating to the company's financial interest in its subsidiaries and associate is presented in the notes to the annual financial statements.

Directors and company secretary

Information relating to the directors and company secretary are included in section 8 of the integrated annual report.

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

The directors' interest in share capital and contracts, and directors' remuneration are disclosed in the notes to the annual financial statements.

Post balance sheet events

Other than the item mentioned in note 45, the directors are not aware of any other event which is material to the financial position of the company or the group that has occurred between the balance sheet date and the date of approval of the financial statements.

Independent auditor's report

*To the shareholders of Capitec
Bank Holdings Limited*

We have audited the consolidated and separate financial statements of Capitec Bank Holdings Limited set out on pages 120 to 183, which comprise the balance sheets as at 28 February 2015, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable

assurance about whether the consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited as at 28 February 2015, and

its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

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

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



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

Balance sheets

As at 28 February 2015

		GROUP		COMPANY	
R'000	Notes	2015	2014	2015	2014
Assets					
Cash, cash equivalents and money market funds	4	11 312 479	9 665 611	31	6
Investments designated at fair value	5	2 663 877	4 757 036	–	–
Term deposit investments	6	5 778 474	–	–	–
Loans and advances to clients	7	32 483 897	30 052 850	1 687	1 969
Other receivables	8	204 483	219 596	9 057	10 335
Derivative assets	9	35 847	202 816	–	–
Current income tax assets		37 635	22 529	–	10
Interest in subsidiaries	10	–	–	5 872 743	5 785 564
Interest in associate	10	–	1 850	–	913
Property and equipment	11	848 758	855 251	–	–
Intangibles	12	238 875	201 319	–	–
Deferred income tax assets	13	312 150	212 108	–	–
Total assets		53 916 475	46 190 966	5 883 518	5 798 797
Liabilities					
Deposits and bonds	14	41 181 305	35 448 678	–	–
Other liabilities	15	1 107 162	748 726	10 813	11 828
Provisions	16	64 268	11 451	–	–
Total liabilities		42 352 735	36 208 855	10 813	11 828
Equity					
Capital and reserves					
Ordinary share capital and premium	17	5 649 071	5 512 570	5 649 071	5 512 570
Cash flow hedge reserve	18	7 035	80 865	–	–
Retained earnings		5 700 459	4 129 707	16 459	15 430
Share capital and reserves attributable to ordinary shareholders		11 356 565	9 723 142	5 665 530	5 528 000
Non-redeemable, non-cumulative, non-participating preference share capital and premium	17	207 175	258 969	207 175	258 969
Total equity		11 563 740	9 982 111	5 872 705	5 786 969
Total equity and liabilities		53 916 475	46 190 966	5 883 518	5 798 797

Income statements

Year ended 28 February 2015

R'000	Notes	GROUP		COMPANY	
		2015	2014	2015	2014
Interest income	19	10 782 229	9 432 796	34	–
Interest expense	19	(2 425 702)	(2 132 718)	–	–
Net interest income		8 356 527	7 300 078	34	–
Loan fee income		1 245 881	1 306 619	–	–
Loan fee expense		(626 708)	(465 916)	–	–
Transaction fee income		3 672 711	2 786 393	–	–
Transaction fee expense		(1 064 835)	(859 523)	–	–
Net fee income		3 227 049	2 767 573	–	–
Dividend income	20	–	7	831 513	719 040
Net impairment charge on loans and advances to clients	21	(4 014 085)	(3 976 170)	–	–
Net movement in financial instruments held at fair value through profit or loss	22	21 271	(19 083)	–	–
Other income		305	279	2 621	3 148
Income from operations		7 591 067	6 072 684	834 168	722 188
Banking operating expenses		(4 030 791)	(3 241 570)	(2 604)	(8 393)
Loss on sale of associate		(886)	–	–	–
Operating profit before tax	23	3 559 390	2 831 114	831 564	713 795
Share of profit of associate	10	–	1 683	–	–
Income tax expense	24	(995 791)	(795 243)	(38)	–
Profit for the year		2 563 599	2 037 554	831 526	713 795
Earnings per share (cents)					
Basic	25	2 209	1 752		
Diluted	25	2 206	1 740		

Statements of comprehensive income

Year ended 28 February 2015

R'000	Notes	GROUP		COMPANY	
		2015	2014	2015	2014
Profit for the year		2 563 599	2 037 554	831 526	713 795
Cash flow hedge recognised during the year	18	(88 211)	187 644	–	–
Cash flow hedge reclassified to profit and loss for the year	18	(14 329)	(53 219)	–	–
Cash flow hedge before tax		(102 540)	134 425	–	–
Income tax relating to cash flow hedge	18	28 710	(37 635)	–	–
Other comprehensive income that will be reclassified to profit or loss for the year net of tax		(73 830)	96 790	–	–
Total comprehensive income for the year		2 489 769	2 134 344	831 526	713 795

Statements of changes in equity

Year ended 28 February 2015

GROUP (R'000)	Notes	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings	Total
Balance at 28 February 2013		5 330 710	258 969	(15 925)	2 939 240	8 512 994
Total comprehensive income for the year		–	–	96 790	2 037 554	2 134 344
Ordinary dividend		–	–	–	(698 458)	(698 458)
Preference dividend		–	–	–	(20 420)	(20 420)
Employee share option scheme: Value of employee services		–	–	–	8 398	8 398
Shares issued and acquired for employee share options at cost	34	181 970	–	–	(181 970)	–
Proceeds on settlement of employee share options	34	–	–	–	32 787	32 787
Tax effect on share options		–	–	–	12 576	12 576
Share issue expenses		(110)	–	–	–	(110)
Balance at 28 February 2014		5 512 570	258 969	80 865	4 129 707	9 982 111
Total comprehensive income for the year		–	–	(73 830)	2 563 599	2 489 769
Ordinary dividend		–	–	–	(813 838)	(813 838)
Preference dividend		–	–	–	(17 510)	(17 510)
Employee share option scheme: value of employee services		–	–	–	13 105	13 105
Shares issued and acquired for employee share options at cost	34	136 501	–	–	(277 419)	(140 918)
Proceeds on settlement of employee share options	34	–	–	–	56 276	56 276
Tax effect on share options		–	–	–	45 522	45 522
Shares repurchased		–	(51 794)	–	1 017	(50 777)
Balance at 28 February 2015		5 649 071	207 175	7 035	5 700 459	11 563 740
Notes		17	17	18		

Statements of changes in equity (continued)

Year ended 28 February 2015

COMPANY (R'000)	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
Balance at 28 February 2013	5 330 710	258 969	20 675	5 610 354
Total comprehensive income for the year	–	–	713 795	713 795
Ordinary dividend	–	–	(698 620)	(698 620)
Preference dividend	–	–	(20 420)	(20 420)
Shares issued and acquired	181 970	–	–	181 970
Share issue expenses	(110)	–	–	(110)
Balance at 28 February 2014	5 512 570	258 969	15 430	5 786 969
Total comprehensive income for the year	–	–	831 526	831 526
Ordinary dividend	–	–	(814 004)	(814 004)
Preference dividend	–	–	(17 510)	(17 510)
Shares issued/(Shares redeemed)	136 501	(51 794)	1 017	85 724
Balance at 28 February 2015	5 649 071	207 175	16 459	5 872 705
Notes	17	17		

Statements of cash flows

Year ended 28 February 2015

R'000	Notes	GROUP		COMPANY	
		2015	2014	2015	2014
Cash flow from operating activities					
Cash flow from operations	31	7 712 474	7 339 048	833 129	713 982
Income taxes paid	32	(1 036 707)	(829 951)	(28)	(10)
		6 675 767	6 509 097	833 101	713 972
Cash flow from investing activities					
Purchase of property and equipment	11	(288 205)	(407 457)	–	–
Proceeds from disposal of property and equipment		15 649	844	–	–
Purchase of intangible assets	12	(125 476)	(141 103)	–	–
Proceeds from sale of associate / Investment in subsidiaries		964	–	(86 266)	(177 344)
Investment in term deposit investments	6	(7 269 515)	–	–	–
Redemption of term deposit investments	6	1 491 041	–	–	–
Acquisition of investments designated at fair value and money market unit trusts		(2 668 536)	(5 427 767)	–	–
Disposal of investments designated at fair value and money market unit trusts		4 777 003	3 374 769	–	–
		(4 067 075)	(2 600 714)	(86 266)	(177 344)
Cash flow from financing activities					
Dividends paid	33	(832 367)	(718 327)	(832 534)	(718 489)
Preference shares (redeemed)		(50 777)	–	(50 777)	–
Ordinary shares issued		136 501	181 860	136 501	181 860
Realised loss on settlement of employee share options less participants' contributions	34	(221 143)	(149 183)	–	–
		(967 786)	(685 650)	(746 810)	(536 629)
Net increase in cash and cash equivalents					
		1 640 906	3 222 733	25	(1)
Cash and cash equivalents at the beginning of the year		9 663 333	6 440 600	6	7
Cash and cash equivalents at the end of the year	4	11 304 239	9 663 333	31	6

Notes to the annual financial statements

Year ended 28 February 2015

1. General information

1.1 Nature of business

The company's main business is that of a bank controlling company as envisaged in the Banks Act, 1990. The company's subsidiaries conduct retail banking.

1.2 Review of operations

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

The group's earnings attributable to shareholders amounted to R2 563.6 million (2014: R2 037.6 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is in section 8 of the integrated report.

1.4 Group details

The group's place of domicile and country of incorporation is the Republic of South Africa and it has a primary listing on the JSE Limited.

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

2. Accounting policies

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

Basis of preparation

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

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

2.1 Basis of consolidation

The consolidated financial statements include those of the company, all its subsidiaries and associates, the share incentive trust and the employee empowerment trust.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has

the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on the acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

When the group ceases to have control of a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

The group determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case the difference between the recoverable amount of the associate and its carrying value is recognised in the income statement.

Profits and losses resulting from transactions between the group and its associates are recognised in the group's financial statements only to the extent of unrelated investors' interests in the associates.

Transactions and non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

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

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

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

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

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

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

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

(b) *Loans and advances*

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

- (i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (ii) those that the entity upon initial recognition designates as available-for-sale; or
- (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(c) *Fixed and term notice deposits*

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

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances and fixed and term notice deposits are carried at amortised cost using the effective interest

rate method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Refer note 2.3.4 with reference to hedging instruments.

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

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

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

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

(a) Deposits held at amortised cost

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

(b) Other financial liabilities

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

2.3.3 Offsetting financial instruments

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

2.3.4 Derivative financial instruments and hedging activities

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

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

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

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

The group designates certain derivatives as:

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

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

Treatment of hedges qualifying as cash flow hedges

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

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

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

The group 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 group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes cash flows of hedged items.

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 42. Movements on the hedging reserve in shareholders' equity are shown in note 18.

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 3 months are included under cash and cash equivalents. The difference between the purchase and sales' price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

2.4 Impairment of advances

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

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

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

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

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

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

These statistics feed discounted cash flow models, which have been developed for each of the loan products offered by the group. The models are updated periodically in order to reflect appropriate changes in inputs.

Models contain both judgemental and non-judgemental inputs. The extent of judgement utilised in models developed for new loan products is greater than that for older products, given the limited historical experience available for the new products.

In outline, the statistical analyses are performed on a portfolio basis as follows:

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days are handed over for collection and written off. Recoveries from short-term loans are regarded as negligible as collateral is not required for the granting of advances in the current product range. The estimated recoveries on longer-term loans discounted at the contractual rates are recognised in gross loans and advances.
- Upon write-off, the accrual of interest income on the original term of the advance is discontinued.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default (LGD), is taken into account in calculating the impairment allowance.

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

2.4.2 Incurred but unidentified impairment

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

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

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

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

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

2.4.3 Loan write-offs

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

2.5 Interest-free loans granted

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

2.6 Current tax

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

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

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

2.7 Deferred tax

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

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

2.8 Property and equipment

Land and buildings comprise a sectional title development right. 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 group 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.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Banking application hardware	3 – 5 years
• Automated teller machines	8 years
• Computer equipment	3 – 5 years
• Office equipment	5 – 8 years
• Motor vehicles	5 years
• Buildings	25 years

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

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

2.9 Computer software

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

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

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

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

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

2.10 Impairment of non-financial assets

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

2.11 Share capital

2.11.1 Categories of share capital

Authorised share capital consists of

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

2.11.2 Share issue costs

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

2.11.3 Dividends declared

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

2.11.4 Treasury shares

Where the company or other members of the group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

2.11.5 Unissued shares

At the annual general meeting an amount of 5% (2014: 5%) of the issued ordinary share capital at the time of the meeting as well as all unissued non-redeemable, non-cumulative, non-participating preference shares and all compulsorily, convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting.

2.12 Employee benefits

2.12.1 Pension obligations

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

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

2.12.2 Share-based compensation

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

The group also has 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 group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

2.12.3 Performance incentive scheme

The group 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 group's business.

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

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

2.13 Foreign currency translation

2.13.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in South African rand ('rand'), which is the group, and company's functional and presentation currency. The financial statements of all the subsidiaries are also presented in rand, which is their functional and presentation currency.

2.13.2 Transactions and balances

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

2.14 Revenue recognition

2.14.1 Interest income and expense

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

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

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

2.14.2 Fee income

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

2.14.3 Dividend income

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

2.15 Segment reporting

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

2.16 Determination of fair values

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

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

Significant judgements used in the calculation of fair values are present in note 3 and further details regarding the valuation of individual items on the balance sheet are presented in notes 28.9 and 28.10.

2.17 Leases

2.17.1 Where a group company is the lessee

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

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

2.17.2 Where a group company 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 group's occupation of certain properties.

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (1 March 2014)
- Amendment to IAS 32 – Offsetting financial assets and financial liabilities (1 March 2014)
- Amendment to IAS 36 – Recoverable amount disclosures for non-financial assets (1 March 2014)
- Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting (1 March 2014)
- IFRIC 21 Levies (1 March 2014)
- Annual Improvements to IFRSs 2012 Cycle

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

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

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

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

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

3.2 Segment reporting

Capitec reports a single segment – retail banking within the South African economic environment. The business is widely distributed with no reliance on any major customers. The business sells a single retail bank product, Global One, which enables clients to transact, save and borrow.

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

3.3 Contingent liability

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

3.4 Fair values

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

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

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

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
4. Cash, cash equivalents and money market funds				
Cash on hand ⁽¹⁾	2 333 031	1 617 156	–	–
Bank balances	7 605 291	7 330 352	31	6
Resale agreements ⁽²⁾	503 787	–	–	–
Short-term corporate bills	100 649	–	–	–
Central bank balances				
Mandatory reserve deposits with central bank ⁽³⁾	761 481	715 825	–	–
Cash and cash equivalents	11 304 239	9 663 333	31	6
Money market unit trusts ⁽⁴⁾	8 240	2 278	–	–
	11 312 479	9 665 611	31	6
Maximum exposure to credit risk	11 312 479	9 665 611	31	6
Current	11 312 479	9 665 611	31	6

⁽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.

R'000	GROUP		COMPANY	
	2015	2014	2015	2014

5. Investments designated at fair value

Interest-bearing instruments⁽¹⁾

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

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

⁽²⁾ The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 28.10.

⁽³⁾ The Liquid Asset Requirement of R1 524.7 million (2014: R1 432.0 million) is held for regulatory liquidity purposes and consists of treasury bills. Half of this amount, 50% is available, without requiring prior regulatory authorisation, for managing overnight working capital needs or for settlement purposes.

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014

6. Term deposit investments

Term deposit investments

Balance at the beginning of the year	–	–	–	–
Additions	7 269 515	–	–	–
Redemptions	(1 491 041)	–	–	–
Total term deposit investments^{(1) (2)}	5 778 474	–		

⁽¹⁾ The balance is the maximum exposure to credit risk. All balances are due by banks and have original maturity dates of more than 3 months but contractually less than 1 year. Investments comprise term-to-notice and fixed-term instruments. (Refer note 28.1 for ratings).

⁽²⁾ The full amount is current.

7. Loans and advances to clients

Maturity analysis

Demand to one month	1 459 335	1 389 323	25	23
One to three months	1 728 706	1 450 349	49	46
Three months to one year	7 223 538	6 370 927	274	257
More than one year	26 260 041	24 847 731	1 339	1 643
Total	36 671 620	34 058 330	1 687	1 969
Deferred loan fee income	(330 353)	(368 304)	–	–
Gross loans and advances	36 341 267	33 690 026	1 687	1 969
Allowance for impaired loans and advances	(3 857 370)	(3 637 176)	–	–
Net loans and advances to clients⁽¹⁾⁽²⁾	32 483 897	30 052 850	1 687	1 969

Analysis of net loans and advances by status

Gross	33 493 679	30 768 901	1 687	1 969
Impairment	(2 334 388)	(2 073 214)	–	–
Current⁽³⁾	31 159 291	28 695 687	1 687	1 969
Gross	883 409	747 262	–	–
Impairment	(366 671)	(246 292)	–	–
Current – arrears rescheduled in the past six months⁽⁴⁾	516 738	500 970	–	–
Gross	1 964 179	2 173 863	–	–
Impairment	(1 156 311)	(1 317 670)	–	–
Arrears⁽⁵⁾	807 868	856 193	–	–

Credit quality of loans and advances⁽⁶⁾⁽⁷⁾

Low risk	8 361 424	6 449 176		
Medium risk	20 770 785	21 591 198		
High risk	4 361 469	3 475 788		
Current loans	33 493 678	31 516 162		

R'000	GROUP		COMPANY	
	2015	2014	2015	2014

7. Loans and advances to clients (continued)

Ageing of gross arrears

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

Movement on allowance for impaired advances

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

Exposure to credit risk

Loans and advances to clients	36 671 620	34 058 330	1 687	1 969
Conditionally revocable retail loan commitments ⁽⁸⁾	469 496	440 423	–	–
Maximum exposure to credit risk	37 141 116	34 498 753	1 687	1 969

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

⁽²⁾ Accrued interest receivable of R180 million is included in loans and advances (2014: R158.2 million).

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

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

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

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

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

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
8. Other receivables				
Rental deposits	5 026	3 235	–	–
Accrued income ⁽¹⁾	105 151	116 495	8 798	10 170
Prepayments	94 306	99 866	259	165
	204 483	219 596	9 057	10 335
Current	198 544	217 399	9 057	10 335
Non-current	5 939	2 197	–	–

⁽¹⁾ Accrued income refers to fees and commission receivable from business partners and interbank services rendered.

9. Derivative assets

Derivatives ⁽¹⁾	35 847	202 816	–	–
Current	(3 755)	14 286	–	–
Non-current	39 602	188 530	–	–

⁽¹⁾ Refer notes 40 and 41 for more information on derivatives.

10. Interest in subsidiaries and associate

Interest in subsidiaries

Investment in unlisted subsidiaries at cost ⁽¹⁾	–	–	5 860 603	5 775 897
Loans to subsidiaries ⁽²⁾	–	–	12 140	9 667
	–	–	5 872 743	5 785 564

Subsidiaries	Domicile	Holding	Nature of business	
Capitec Bank Limited	South Africa	100%	Banking	
Keynes Rational Corporate Services Proprietary Limited	South Africa	100%	Dormant	
Capitec Properties Proprietary Limited	South Africa	100%	Property	
Keymatrix Proprietary Limited	South Africa	100%	Dormant	
Capitec Bank Holdings Share Trust	South Africa	–	Share incentive trust	
Capitec Bank Group Employee Empowerment Trust	South Africa	–	Employee empowerment trust	

Interest in associate⁽³⁾

Opening balance	1 850	167	913	913
Share of profit	–	1 683	–	–
Sale of interest in associate	(1 850)	–	(913)	–
Closing balance	–	1 850	–	913

⁽¹⁾ All holdings are in the ordinary and preference share capital of the subsidiaries.

⁽²⁾ Loans to subsidiaries are interest-free and have no fixed repayment terms. Loans are managed as part of the investment in subsidiaries. Loans to associate for the year ending 28 February 2014 were capped at R5.25 million.

⁽³⁾ The interest in the associate consists of a 28% holding in Key Distributors Proprietary Limited, a wholesale distribution company incorporated in South Africa. The 28% holding was sold on 1 March 2014. The assets, liabilities and revenue of the associate as at 28 February 2014 was R44.4 million, R34.2 million and R340.1 million respectively. The profit for the year ending 28 February 2014 was R2.8 million.

11. Property and equipment

GROUP (R'000)	Land and buildings	Computer equipment	Office equipment and vehicles	Total
2015				
Opening net book value	31 294	437 631	386 326	855 251
Additions	–	129 355	158 850	288 205
Disposals	–	(6 834)	(5 821)	(12 655)
Depreciation charge	–	(157 443)	(124 600)	(282 043)
Net book value at the end of the year	31 294	402 709	414 755	848 758
Cost	31 294	960 052	1 014 397	2 005 743
Accumulated depreciation	–	(557 343)	(599 642)	(1 156 985)
Net book value at the end of the year	31 294	402 709	414 755	848 758
Non-current	31 294	402 709	414 755	848 758
2014				
Cost	31 294	622 074	721 272	1 374 640
Accumulated depreciation	–	(299 551)	(377 577)	(677 128)
Opening net book value	31 294	322 523	343 695	697 512
Additions	–	256 048	151 409	407 457
Disposals	–	(607)	(317)	(924)
Depreciation charge	–	(140 333)	(108 461)	(248 794)
Net book value at the end of the year	31 294	437 631	386 326	855 251
Cost	31 294	868 912	869 890	1 770 096
Accumulated depreciation	–	(431 281)	(483 564)	(914 845)
Net book value at the end of the year	31 294	437 631	386 326	855 251
Non-current	31 294	437 631	386 326	855 251

R'000	GROUP		COMPANY	
	2015	2014	2015	2014

12. Intangibles

Computer software⁽¹⁾

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

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

13. Deferred income tax

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre- payments	Total
2015					
Balance at the beginning of the year	294 117	(31 543)	(37 297)	(13 169)	212 108
Income statement charge	80 384	–	1 594	2 083	84 061
Credited directly to equity	(12 729)	–	–	–	(12 729)
Credited to equity through other comprehensive income	–	28 710	–	–	28 710
Balance at the end of the year⁽¹⁾	361 772	(2 833)	(35 703)	(11 086)	312 150
2014					
Balance at the beginning of the year	308 138	6 092	(34 396)	(8 839)	270 995
Income statement charge	12 863	–	(2 901)	(4 330)	5 632
Credited directly to equity	(26 884)	–	–	–	(26 884)
Credited to equity through other comprehensive income	–	(37 635)	–	–	(37 635)
Balance at the end of the year⁽¹⁾	294 117	(31 543)	(37 297)	(13 169)	212 108

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
Current	235 115	150 299	–	–
Non-current	77 035	61 809	–	–

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
14. Deposits and bonds				
By maturity				
Within one month	20 087 292	15 291 072	–	–
One to three months	2 031 174	1 548 149	–	–
Three months to one year	6 037 694	4 216 738	–	–
More than one year	13 025 145	14 392 719	–	–
Deposits and bonds⁽¹⁾	41 181 305	35 448 678	–	–
By nature				
Retail funding				
Retail savings	19 297 567	14 616 509	–	–
Retail fixed deposits	10 731 192	8 984 370	–	–
	30 028 759	23 600 879	–	–
Institutional bond and other funding⁽³⁾				
Subordinated debt – unlisted bonds	1 010 313	1 006 352	–	–
Subordinated debt – listed bonds ⁽²⁾	1 927 088	1 925 517	–	–
Listed senior bonds ⁽²⁾	4 891 458	5 488 667	–	–
Unlisted negotiable instruments	1 782 273	1 879 011	–	–
Wholesale	1 301 659	1 363 714	–	–
SARB settlement balance	239 755	184 538	–	–
	11 152 546	11 847 799	–	–
	41 181 305	35 448 678	–	–
Amounts payable on maturity of the funding ⁽⁴⁾	45 393 941	40 274 894	–	–

Subordinated debt analysis

Description	Nominal amount	Term	Rate
Subordinated debt – unlisted bonds – floating rate	R250 million	12 years	
• First seven years			3-month JIBAR plus 6.75%
• Last five years if not called by the bank			3-month JIBAR plus 8.00%
Subordinated debt – unlisted bonds – floating rate	R200 million	12 years	
• First seven years			3-month JIBAR plus 5.75%
• Last five years if not called by the bank			3-month JIBAR plus 7.00%
Subordinated debt – unlisted bonds – floating rate	R44 million	7 years	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	7 years	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	7 years	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	7 years	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	7 years	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	7 years	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	7 years	R204 government bond plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	7 years	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 18 and 41. The nominal value of hedged funding consists of:

Subordinated debt – unlisted bonds R994 000 million

Subordinated debt – listed bonds R1 122 000 million

Listed senior bonds R2 490 000 million

Unlisted negotiable instruments R414 000 million

Wholesale R1 453 849 million

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
15. Other liabilities				
Trade payables	334 162	323 419	23	18
Dividends payable	10 790	11 810	10 790	11 810
Accruals	610 248	286 079	–	–
Share appreciation rights (note 39)	129 834	126 699	–	–
Derivatives (notes 40 and 41)	22 128	719	–	–
	1 107 162	748 726	10 813	11 828
Current	843 041	537 523	10 813	11 828
Non-current	264 121	211 203	–	–

16. Provisions

Performance incentive scheme⁽¹⁾

Balance at the beginning of the year	11 451	28 449	–	–
Addition	63 117	2 487	–	–
Used during the year	(10 300)	(19 485)	–	–
Balance at the end of the year	64 268	11 451	–	–
Non-current	64 268	11 451	–	–

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

17. Share capital and premium

Authorised

Ordinary shares

500 000 000 shares of R0.01 each	5 000	5 000	5 000	5 000
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Non-redeemable, non-cumulative, non-participating preference shares

100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
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Compulsorily convertible, non-redeemable, non-cumulative, non-participating preference shares⁽¹⁾

100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
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Written-off, non-redeemable, non-cumulative, non-participating preference shares⁽¹⁾

100 000 000 shares of R0.01 each	1 000	–	1 000	–
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	8 000	7 000	8 000	7 000
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R'000	GROUP		COMPANY	
	2015	2014	2015	2014

17. Share capital and premium (continued)

Issued⁽²⁾

115 626 991 (2014: 115 297 995) shares of R0.01

each at par	1 156	1 153	1 156	1 153
Share premium	5 647 915	5 511 417	5 647 915	5 511 417
Ordinary share capital and premium	5 649 071	5 512 570	5 649 071	5 512 570

2 295 211 (2014: 2 869 014) shares of R0.01

each at par	23	29	23	29
Share premium	207 152	258 940	207 152	258 940

Non-redeemable, non-cumulative, non-participating preference share capital and premium⁽³⁾

	207 175	258 969	207 175	258 969
Total issued share capital and premium⁽³⁾⁽⁴⁾⁽⁵⁾	5 856 246	5 771 539	5 856 246	5 771 539

⁽¹⁾ This class complies with bank regulatory requirements that capital instruments should be loss absorbent.

⁽²⁾ All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 573 803 (2014: Nil) preference shares with a value of R51 789 (par and premium) (2014: Nil) were repurchased and cancelled during the year. This was done as they no longer qualified as regulatory capital in terms of the regulations relating to banks.

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

⁽⁴⁾ Refer note 34 for detail regarding the issue of shares to settle share options. During the year a loss of R221.1 million (R175.6 million after tax) (2014: R149.2 million, R136.6 million after tax) was realised on settlement of share options as reflected in the statement of changes in equity.

⁽⁵⁾ 6 223 432 (2014: 7 249 405) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares (including the compulsory convertible and write-off classes) that were placed under the control of the directors until the next annual general meeting remained at year-end.

18. Cash flow hedge reserve

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

⁽¹⁾ The hedging reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items comprise floating rate DMTN bonds, a bilateral US\$-denominated floating rate loan, unlisted floating rate subordinated debt, a rand-denominated bilateral loan and negotiable floating rate notes ('FRNs'). Refer note 41 for additional disclosure.

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
19. Net interest income				
Loans and advances to clients	10 040 370	9 000 174	–	–
Non-bank money market placements	144	21	34	–
Money market funds and term deposit investments	524 663	207 274	–	–
Treasury bills	20 827	28 576	–	–
Bank balances	7 564	8 953	–	–
Resale agreements	4 980	–	–	–
Debentures	18 322	27 060	–	–
Interest-bearing instruments	165 359	160 738	–	–
Interest income⁽¹⁾	10 782 229	9 432 796	34	–
Retail savings	(684 513)	(489 029)	–	–
Retail fixed deposits	(720 008)	(564 165)	–	–
Other unlisted wholesale	(118 432)	(133 857)	–	–
Subordinated debt	(326 249)	(300 630)	–	–
Domestic Medium Term Note	(437 327)	(457 996)	–	–
Negotiable deposits	(139 173)	(187 037)	–	–
Other	–	(4)	–	–
Interest expense	(2 425 702)	(2 132 718)	–	–
Net interest income	8 356 527	7 300 078	34	–
⁽¹⁾ Included in interest income is R73.0 million (2014: R80.2 million) with respect to interest income accrued on loans and advances in arrears.				
20. Dividend income				
Ordinary dividends	–	–	814 004	698 620
Preference dividends	–	–	17 510	20 420
Subsidiaries	–	–	831 514	719 040
Investments at fair value through profit or loss	–	7	(1)	–
Dividend income	–	7	831 513	719 040
21. Net impairment charge on loans and advances to clients				
Bad debts	4 395 602	3 495 596	–	–
Movement in impairment allowance	220 194	914 362	–	–
Bad debts recovered	(601 711)	(433 788)	–	–
Net impairment charge	4 014 085	3 976 170	–	–

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
22. Net movement in financial instruments held at fair value through profit or loss				
Change in fair value due to risk factors ⁽¹⁾	21 271	(19 083)	–	–

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

23. Operating profit before tax

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

(Profit)/Loss on disposal of equipment	(2 994)	80	–	–
Loss on scrapping of intangibles	2 016	–	–	–
Depreciation on fixed assets	282 043	248 794	–	–
Amortisation of computer software	85 904	76 164	–	–
	366 969	325 038	–	–
Advertising and marketing	157 047	152 514	1 265	1 505
Bank charges	175 472	182 546	1	1
Consumables	141 634	114 594	56	41
Communications	137 517	133 590	–	–
Operating lease rentals				
Land and buildings	291 592	239 162	–	–
Office equipment	3 302	2 964	–	–
	294 894	242 126	–	–
Income from subletting	(4 559)	(3 861)	–	–
Auditors' remuneration				
Audit fees – current year	3 788	3 320	2	2
Other services	448	674	–	–
	4 236	3 994	2	2
Employee costs (including directors' remuneration) ⁽¹⁾				
Salaries and bonus costs	1 913 595	1 427 587	–	–
Equity-settled share-based payment	13 105	8 398	–	–
Cash-settled share appreciation rights	160 137	56 104	–	–
Social security cost	36 273	34 315	–	–
Training cost	47 022	35 015	–	–
Training refund	(3 343)	(10 232)	–	–
	2 166 789	1 551 187	–	–

⁽¹⁾ Refer note 30 for details of directors' remuneration.

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
24. Income tax expense				
Current tax	1 079 852	800 875	38	–
Deferred tax	(84 061)	(5 632)	–	–
Income tax expense	995 791	795 243	38	–
Effective tax rate (%)	28	28	–	–

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

Profit before tax	3 559 390	2 831 114	831 564	713 795
Tax calculated at a tax rate of 28%	996 629	792 712	232 838	199 863
Adjustments for prior periods	221	13	–	–
Income not subject to tax	(2 396)	(7)	(232 800)	(202 240)
Expenses not deductible for tax purposes	2 536	3 563	–	2 377
Allowances not in income statement	(1 206)	(1 001)	–	–
Movement in unutilised tax losses	7	(37)	–	–
Income tax expense	995 791	795 243	38	–
Estimated tax losses at year-end available for utilisation against future taxable income	11 783	11 878	–	–
Net calculated tax losses carried forward⁽¹⁾	11 783	11 878	–	–
Tax relief calculated at current tax rates	3 299	3 326	–	–

⁽¹⁾ The utilisation of the tax losses is dependent on sufficient future taxable income being earned.

	GROUP	
R'000	2015	2014
25. Earnings per share attributable to ordinary shareholders		
Net profit after tax	2 563 599	2 037 554
Preference dividend	(17 510)	(20 420)
Discount on repurchase of preference shares	1 017	–
Net profit after tax attributable to ordinary shareholders	2 547 106	2 017 134
Weighted average number of ordinary shares in issue (thousands)	115 300	115 164
Adjustment for:		
Exercise of share options	149	771
Weighted average number of ordinary shares for diluted earnings per share (thousands)	115 449	115 935
Basic earnings per share (cents)⁽¹⁾	2 209	1 752
Diluted earnings per share (cents)⁽²⁾	2 206	1 740

⁽¹⁾ Basic earnings per share are calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

⁽²⁾ To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity shareholders is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.

26. Headline earnings per share attributable to ordinary shareholders

	GROUP	
R'000	2015	2014
Net profit attributable to ordinary shareholders	2 547 106	2 017 134
Non-headline items		
(Profit) /Loss on disposal of property and equipment	(2 994)	80
Income tax charge – property and equipment	838	(23)
Loss on scrapping of intangible assets	2 016	–
Income tax charge – intangible assets	(564)	–
Loss on sale of associate	886	–
Headline earnings	2 547 288	2 017 191
Basic headline earnings per share (cents)	2 209	1 752
Diluted headline earnings per share (cents)	2 206	1 740

27. Dividends

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

	DPS	R'000 Rand	Declared	LDT	Date paid
2015					
Ordinary dividend					
Interim	246	283 633	25 Sep 2014	17 Oct 2014	27 Oct 2014
Final ⁽¹⁾	590	682 199	23 Mar 2015	10 Apr 2015	20 Apr 2015
Preference dividend					
Interim	380.64	8 736	29 Aug 2014	12 Sep 2014	22 Sep 2014
Final	382.23	8 773	27 Feb 2015	13 Mar 2015	23 Mar 2015

2014

Ordinary dividend					
Interim	203	234 055	25 Sep 2013	11 Oct 2013	21 Oct 2013
Final	460	530 371	24 Mar 2014	10 Apr 2014	22 Apr 2014
Preference dividend					
Interim	357.06	10 244	31 Aug 2013	13 Sep 2013	23 Sep 2013
Final	354.67	10 176	28 Feb 2014	13 Mar 2014	24 Mar 2014

⁽¹⁾ The directors declared a final dividend of 590 cents per share (2014: 460 cents per share) in respect of 2015 on 23 March 2015 amounting to a dividend of R682.2 million (2014: R530.4 million). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2016, which is in line with recommended accounting practice.

28. Financial risk management

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

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The board established a risk and capital management committee (RCMC), comprising four independent non-executive directors, that 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 group environment.

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

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

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group 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 and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

The financial instruments carried on the balance sheet are set out in note 28.9.

28.1 Credit risk

Retail lending

The group 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 group to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances, and accordingly the entire balance as per the balance sheet is exposed to credit risk. The group has insurance cover for credit events arising from the death of clients and private sector retrenchments. The credit quality of loans and advances is disclosed in note 7.

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

Investments

The group 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 group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's.

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

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Total carrying amount
2015						
Cash on hand	4	–	2 333 031	–	–	2 333 031
Bank balances ⁽¹⁾	4	2 146 299	5 458 978	–	14	7 605 291
Resale agreements	4	–	–	–	503 787	503 787
Short-term corporate bills	4	–	–	–	100 649	100 649
Central bank balances ⁽³⁾	4	–	761 481	–	–	761 481
Money market funds ⁽²⁾	4	–	–	–	8 240	8 240
Treasury bills (> 3 months)	5	–	2 562 436	–	–	2 562 436
Negotiable certificates of deposit (> 3 months)	5	–	101 441	–	–	101 441
Term deposit investments	6	1 498 910	4 279 565	–	–	5 778 475
Derivative assets	40, 41	23 894	11 953	–	–	35 847
		3 669 103	15 508 885	–	612 690	19 790 678
2014						
Cash on hand	4	–	1 617 156	–	–	1 617 156
Bank balances ⁽¹⁾	4	2 635 383	4 694 934	–	35	7 330 352
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances ⁽³⁾	4	–	715 825	–	–	715 825
Money market funds ⁽²⁾	4	–	–	–	2 278	2 278
Treasury bills (> 3 months)	7	–	4 604 464	–	–	4 604 464
Negotiable certificates of deposit (> 3 months)	7	–	152 572	–	–	152 572
		2 635 383	11 784 951	–	2 313	14 422 647

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

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

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

28.2 Geographical concentration of operations

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

Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:

	2015	2014
Eastern Cape	73	73
Free State	37	37
Gauteng	200	183
KwaZulu-Natal	102	97
Limpopo	60	55
Mpumalanga	55	52
North West	37	33
Northern Cape	21	20
Western Cape	83	79
	668	629

28.3 Interest rate risk

The current group 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 group, including, inter alia, the results of various models and the impact of interest rate strategy on the net interest margin before and after the cost of credit. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio. The exposure to interest rate risk is managed within board-approved tolerances. In short, management aims to match the fixed or floating rate nature of funding with the fixed or floating rate elements of the loan book and surplus cash positions.

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

Fair value interest rate risk

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

Cash flow interest rate risk

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

28.3 Interest rate risk (continued)

Floating rate bond and wholesale deposit liabilities may be hedged using interest rate swaps, which mitigate the impact that changing market interest rates can have on annual earnings. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt, thereby reducing fluctuations in future cash flow commitments. Under the terms of interest rate swaps, the group agrees with other banking entities to exchange the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts on a quarterly basis.

Compliance with the prescribed maximum interest rates

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

Sensitivity analysis

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

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

- Immediately following the reporting date.
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, floating bond liabilities), excluding the effect of cash flow hedges.
- Assets and liabilities accounted for at fair value through profit and loss (treasury bills that are market-to-market).
- On balance sheet at the reporting date.
- The movement in rates was applied as a parallel shift in the applicable yield curves.
- The impact on the income statement reflects the effect of the shift in rates over twelve months, on an undiscounted basis, on net interest income, inclusive of the effect of interest rate hedges. Day one valuation adjustments on investments accounted for at fair value through profit and loss; being an increase in value of R26.2 million (2014: R48.1 million) for a 200 basis point decrease and a decline in value of R25.6 million (2014: R46.8 million) for a 200 basis point increase are excluded, as the contractual terms of these instruments have fixed rate cash flows and they are not actively traded.
- The impact on other comprehensive income reflects the day one change in the valuation of interest rate cash flow hedges.

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

28.4 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts.

Wholesale loans and deposits (refer note 14) include a foreign denominated loan. The currency exposure is fully hedged using a cross currency swap (refer note 41).

28.5 Other market risk

There is no exposure to other types of pricing risk.

28.6 Liquidity risk

The group manages liquidity cautiously and operates a conservative maturity profile which is monitored by ALCO. The maturity profile reflects the deliberate strategy of funding longer-term assets with a significant portion of long-term funding.

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

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to items which have not yet been recorded on the balance sheet (off-balance sheet items), are excluded. Refer note 35.
- Conditionally revocable retail loan commitments totalling R469.5 million (2014: R440.4 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less.
- The group's contractual commitment is revocable should a client not meet their contractual obligations or where the group has determined that the client's credit risk profile has changed. A total of 22.7% (2014: 21.3%) of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within the month.
- Adjustments to loans and advances to clients relate to initiation fee income.

28.6 Liquidity risk (continued)

Maturities of financial assets and financial liabilities⁽¹⁾⁽³⁾ (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment⁽⁴⁾	Total
2015							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	761 481	–	–	–	–	761 481
Cash and cash equivalents – banks	4	9 650 303	799 416	–	–	–	10 449 719
Short-term corporate bills	4	–	101 525	–	–	–	101 525
Money market unit trusts – corporate other	4	8 240	–	–	–	–	8 240
Investments at fair value through profit or loss – sovereigns and banks ⁽⁵⁾	5	1 623	577 540	2 169 847	–	–	2 749 010
Term deposit investments	6	273 695	3 761 421	1 830 989	–	–	5 866 105
Loans and advances to clients – retail personal	7	2 742 871	3 528 034	14 440 536	44 767 577	(330 353)	65 148 665
Loans and advances to clients – retail other	7	7 020	–	–	–	–	7 020
Loans and advances to clients – corporate other	7	13 702	–	–	–	–	13 702
Other receivables	8	105 037	714	–	5 939	–	111 690
Derivative assets	9	(79)	(1 357)	(4 301)	43 485	–	37 748
Current income tax asset		–	–	37 635	–	–	37 635
Undiscounted assets		13 563 893	8 767 293	18 474 706	44 817 001	(330 353)	85 292 540
Adjustments for undiscounted assets		(1 308 668)	(1 852 579)	(7 340 117)	(18 511 420)	–	(29 012 784)
Discounted assets							
Loan impairment provision	7	(332 179)	(147 941)	(584 423)	(2 792 827)	–	(3 857 370)
Total discounted assets		11 923 046	6 766 773	10 550 166	23 512 754	(330 353)	52 422 386
Undiscounted liabilities							
Deposits and bonds	14	20 116 795	2 227 827	6 959 632	16 089 687	–	45 393 941
Trade and other payables	15	547 867	262 581	32 593	118 574	145 199	1 106 814
Provisions	16	–	–	–	64 268	–	64 268
Undiscounted liabilities		20 664 662	2 490 408	6 992 225	16 272 529	145 199	46 565 023
Adjustments for undiscounted liabilities to depositors		(29 507)	(196 695)	(922 446)	(3 063 640)	–	(4 212 288)
Total discounted liabilities		20 635 155	2 293 713	6 069 779	13 208 889	145 199	42 352 735
Net liquidity excess/(shortfall)		(8 712 109)	4 473 060	4 480 387	10 303 865	(475 552)	10 069 651
Cumulative liquidity excess/(shortfall)⁽²⁾		(8 712 109)	(4 239 049)	241 338	10 545 203	10 069 651	10 069 651

⁽¹⁾ The contractual maturity of the financial assets and liabilities of the company are all on demand to one month.

⁽²⁾ Much of the liquidity shortfall in the demand to three-month categories results from the investment of excess cash in treasury bills with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

⁽³⁾ The definitions of sovereign, banks, corporate and retail are aligned with the Banks Act Regulations.

⁽⁴⁾ The adjustment includes adjustments for deferred initiation fees, leave pay provision, deferred income and straight-lining of lease accruals.

⁽⁵⁾ 96% (2014: 97%) of Investments at fair value through profit or loss – sovereigns and banks relates to investments in sovereigns.

28.6 Liquidity risk (continued)

Maturities of financial assets and financial liabilities⁽¹⁾⁽³⁾ (discounted cash flows)		Demand to one month	One to three months	Three months to one year	More than one year	Adjustment⁽⁴⁾	Total
R'000	Notes						
2014							
Undiscounted assets							
Cash and cash equivalents – sovereigns ⁽²⁾	4	715 825	–	–	–	–	715 825
Cash and cash equivalents – banks	4	7 714 844	1 246 239	–	–	–	8 961 083
Money markets unit trusts – corporate other	4	2 278	–	–	–	–	2 278
Investments at fair value through profit or loss – sovereigns	5	695 330	285 000	3 791 580	–	–	4 771 910
Loans and advances to clients – retail personal	7	2 201 252	3 059 347	12 798 287	39 901 710	(368 304)	57 592 292
Loans and advances to clients – retail other	7	5 307	–	–	–	–	5 307
Loans and advances to clients – corporate other	7	14 466	–	–	–	–	14 466
Other receivables	8	118 464	51	–	2 197	–	120 712
Derivative assets	9	–	(3 251)	17 932	230 057	–	244 738
Current income tax assets		–	–	22 529	–	–	22 529
Undiscounted assets		11 467 766	4 587 386	16 630 328	40 133 964	(368 304)	72 451 140
Adjustments for undiscounted assets		(839 285)	(1 466 995)	(6 591 606)	(15 095 506)	–	(23 993 392)
Discounted assets							
Loan impairment provision	7	(317 583)	(134 230)	(568 546)	(2 616 817)	–	(3 637 176)
Total discounted assets		10 310 898	2 986 161	9 470 176	22 421 641	(368 304)	44 820 572
Undiscounted liabilities							
Deposits and bonds at amortised cost	14	15 315 786	1 739 300	5 137 338	18 217 404	–	40 409 828
Trade and other payables	15	385 846	118 914	32 762	92 348	118 863	748 733
Provisions	16	–	–	–	11 451	–	11 451
Undiscounted liabilities		15 701 632	1 858 214	5 170 100	18 321 203	118 863	41 170 012
Adjustments for undiscounted liabilities to depositors		(24 714)	(191 151)	(920 600)	(3 824 685)	–	(4 961 150)
Total discounted liabilities		15 676 918	1 667 063	4 249 500	14 496 518	118 863	36 208 862
Net liquidity excess/(shortfall)		(5 366 020)	1 319 098	5 220 676	7 925 123	(487 167)	8 611 710
Cumulative liquidity excess/(shortfall)⁽²⁾		(5 366 020)	(4 046 922)	1 173 754	9 098 877	8 611 710	8 611 710

⁽¹⁾ The contractual maturity of the financial assets and liabilities of the company are all on demand to one month.

⁽²⁾ Much of the liquidity shortfall in the demand to three-month categories results from the investment of excess cash in treasury bills with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

⁽³⁾ The definitions of sovereign, banks, corporate and retail are aligned with the Banks Act Regulations.

⁽⁴⁾ The adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income and straight-lining of lease accruals.

28.6 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year

R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2015								
Undiscounted assets								
Loans and advances to clients – retail personal	7	44 767 577	15 975 484	11 938 702	8 075 604	4 477 483	4 300 304	–
Other receivables	8	5 939	5 720	–	–	–	219	–
Derivative assets	9	43 485	(10 282)	53 403	364	–	–	–
Undiscounted assets		44 817 001	15 970 922	11 992 105	8 075 968	4 477 483	4 300 523	–
Adjustments for undiscounted assets		(18 511 420)	(7 231 074)	(4 724 155)	(2 723 238)	(1 361 300)	(2 471 653)	–
Discounted assets								
Loan impairment provision	7	(2 792 827)	(979 734)	(753 934)	(529 447)	(302 424)	(227 288)	–
Total discounted assets		23 512 754	7 760 114	6 514 016	4 823 283	2 813 759	1 601 582	–
Undiscounted liabilities								
Deposits and bonds	14	16 089 687	5 910 659	3 923 831	2 073 132	3 014 440	1 167 625	–
Trade and other payables	15	118 574	38 195	15 675	8 403	3 037	53 264	–
Provisions	16	64 268	32 709	31 559	–	–	–	–
Undiscounted liabilities		16 272 529	5 981 563	3 971 065	2 081 535	3 017 477	1 220 889	–
Adjustments for undiscounted liabilities to depositors		(3 063 640)	(1 061 106)	(797 034)	(563 416)	(439 554)	(202 530)	–
Total discounted liabilities		13 208 889	4 920 457	3 174 031	1 518 119	2 577 923	1 018 359	–
Net liquidity excess/(shortfall)		10 303 865	2 839 657	3 339 985	3 305 164	235 836	583 223	–
Cumulative liquidity excess/(shortfall)		10 545 203	3 080 995	6 420 980	9 726 144	9 961 980	10 545 203	10 545 203

28.6 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities

of more than one year R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2014								
Undiscounted assets								
Loans and advances to clients – retail personal	7	39 901 710	14 460 540	11 022 898	7 443 877	4 355 847	2 618 548	–
Other receivables	8	2 197	1 977	–	–	–	220	–
Derivative assets	9	230 057	211 085	18 972	–	–	–	–
Undiscounted assets		40 133 964	14 673 602	11 041 870	7 443 877	4 355 847	2 618 768	–
Adjustments for undiscounted assets		(15 095 506)	(6 504 013)	(4 261 074)	(2 386 721)	(1 067 015)	(876 683)	–
Discounted assets								
Loan impairment provision	7	(2 616 817)	(890 236)	(690 835)	(500 730)	(311 485)	(223 531)	–
Total discounted assets		22 421 641	7 279 353	6 089 961	4 556 426	2 977 347	1 518 554	–
Undiscounted liabilities								
Deposits and bonds	14	18 217 404	5 548 690	4 854 566	2 680 353	1 869 651	3 208 771	55 373
Trade and other payables	15	92 348	54 709	3 778	1 530	718	31 613	–
Provisions	16	11 451	10 208	1 243	–	–	–	–
Undiscounted liabilities		18 321 203	5 613 607	4 859 587	2 681 883	1 870 369	3 240 384	55 373
Adjustments for undiscounted liabilities to depositors		(3 824 685)	(1 225 538)	(928 650)	(630 775)	(566 056)	(469 551)	(4 115)
Total discounted liabilities		14 496 518	4 388 069	3 930 937	2 051 108	1 304 313	2 770 833	51 258
Net liquidity excess/(shortfall)		7 925 123	2 891 284	2 159 024	2 505 318	1 673 034	(1 252 279)	(51 258)
Cumulative liquidity excess/(shortfall)		9 098 877	11 990 161	14 149 185	16 654 503	18 327 537	17 075 258	17 024 000

28.7 Capital management

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

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

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

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

R'000	GROUP		BANK	
	2015	2014	2015	2014
Composition of qualifying regulatory capital				
Ordinary share capital	5 649 071	5 512 570	6 105 981	5 969 482
Accumulated profit	5 700 459	4 129 707	5 159 602	3 533 667
	11 349 530	9 642 277	11 265 583	9 503 149
Regulatory adjustments				
– Intangible assets in terms of IFRS	(238 876)	(201 318)	(238 876)	(201 318)
– Specified advances	(178)	–	–	–
– Unappropriated profit	(482 226)	(398 291)	(482 226)	(398 291)
Common Equity Tier 1 capital (CET1)	10 628 250	9 042 668	10 544 481	8 903 540
Issued preference share capital ⁽⁷⁾	207 175	258 969	207 175	258 969
Phase-out – non-loss absorbent ⁽¹⁾	(25 897)	(51 794)	(25 897)	(51 794)
Additional Tier 1 capital (AT1)	181 278	207 175	181 278	207 175
Tier 1 capital (T1)	10 809 528	9 249 843	10 725 759	9 110 715
Issued subordinated debt	2 891 000	2 891 000	2 891 000	2 891 000
Phase-out – non-loss absorbent ⁽¹⁾	(867 300)	(578 200)	(867 300)	(578 200)
Deduction for third-party capital issued by bank subsidiary ⁽²⁾	(312 487)	(293 200)	–	–
Total subordinated debt	1 711 213	2 019 600	2 023 700	2 312 800
Unidentified impairments	398 251	328 328	398 251	328 328
Tier 2 capital (T2)	2 109 464	2 347 928	2 421 951	2 641 128
Qualifying regulatory capital	12 918 992	11 597 771	13 147 710	11 751 843

28.7 Capital management (continued)

R'000	GROUP		BANK	
	2015	2014	2015	2014
CET1%	29.4	30.4	29.1	29.9
AT1%	0.5	0.7	0.5	0.7
T1%	29.9	31.1	29.6	30.6
T2%	5.8	7.9	6.7	8.9
Total capital adequacy %⁽³⁾	35.7	39.0	36.3	39.5
Composition of required regulatory capital				
On balance sheet	3 183 153	2 623 523	3 186 011	2 626 363
Off balance sheet	–	263	–	263
Credit risk	3 183 153	2 623 786	3 186 011	2 626 626
Operational risk	253 131	197 119	253 273	197 264
Equity risk in the banking book	–	185	–	–
Other assets	183 357	155 526	180 093	153 136
Total regulatory capital requirement⁽⁴⁾	3 619 641	2 976 616	3 619 377	2 977 026
Composition of risk-weighted assets⁽⁵⁾				
On balance sheet	31 831 530	26 235 232	31 860 109	26 263 630
Off balance sheet	–	2 625	–	2 625
Credit risk	31 831 530	26 237 857	31 860 109	26 266 255
Operational risk	2 531 306	1 971 194	2 532 727	1 972 642
Equity risk in the banking book	–	1 850	–	–
Other assets	1 833 573	1 555 263	1 800 930	1 531 355
Total risk-weighted assets	36 196 409	29 766 164	36 193 766	29 770 252
Total assets based on IFRS	53 916 475	46 190 966	53 912 516	46 188 501
Total risk-weighted assets – adjustments ⁽⁶⁾	(17 720 066)	(16 424 802)	(17 718 750)	(16 418 249)
Total risk-weighted assets – regulatory	36 196 409	29 766 164	36 193 766	29 770 252

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

⁽²⁾ Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3 rules. This deduction phases in at 20% per annum.

⁽³⁾ The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.

⁽⁴⁾ This value is 10% (2014: 10%) of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 2% (2014: 2%). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.

⁽⁵⁾ Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.

⁽⁶⁾ The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.

⁽⁷⁾ The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. Twenty per cent of these shares were repurchased in the 2015 financial year as they no longer contributed to qualifying regulatory capital.

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

R'000	Notes	At fair value through profit and loss		At amorised cost		Total
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	
2015						
Interest income	19	–	165 359	10 616 870	–	10 782 229
Interest expense	19	–	–	–	(2 425 702)	(2 425 702)
Loan fee income		–	–	1 245 881	–	1 245 881
Loan fee expense		–	–	(626 708)	–	(626 708)
Transaction fee income		–	–	–	3 672 711	3 672 711
Transaction fee expense		–	–	–	(1 064 835)	(1 064 835)
Dividend income	20	–	–	–	–	–
Net impairment on loans and advances to clients	21	–	–	(4 014 085)	–	(4 014 085)
Net movement in financial instruments held at fair value through profit or loss	22	–	21 271	–	–	21 271
2014						
Interest income	19	–	160 738	9 272 058	–	9 432 796
Interest expense	19	–	–	–	(2 132 718)	(2 132 718)
Loan fee income		–	–	1 306 619	–	1 306 619
Loan fee expense		–	–	(465 916)	–	(465 916)
Transaction fee income		–	–	–	2 786 393	2 786 393
Transaction fee expense		–	–	–	(859 523)	(859 523)
Dividend income	20	–	7	–	–	7
Net impairment on loans and advances to clients	21	–	–	(3 976 170)	–	(3 976 170)
Net movement in financial instruments held at fair value through profit or loss	22	–	(19 083)	–	–	(19 083)

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

Valuation processes

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

Hierarchy of fair value of financial instruments

IFRS 13 defines a hierarchy of valuation techniques, with three levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's assessment of what inputs would likely be from the perspective of the market. The group first considers relevant and observable market inputs where these are available. Unobservable inputs are used in the absence of observable inputs. The group'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.

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

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

R'000	Notes	At fair value through profit and loss		At amortised cost		Total	Fair value	Hierarchy of valuation technique
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities			
2015								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	11 312 479	–	11 312 479	11 312 479	(2)
Investments designated at fair value	5	–	2 663 877	–	–	2 663 877	2 663 877	Level 2
Term deposit investments	6	–	–	5 778 474	–	5 778 474	5 778 474	(2)
Loans and advances to clients	7	–	–	32 483 897	–	32 483 897	36 938 920	Level 3
Other receivables	8	–	–	110 177	–	110 177	110 177	(2)
Derivative assets ⁽¹⁾	9	–	35 847	–	–	35 847	35 847	Level 2
Financial liabilities								
Deposits and bonds	14	–	–	–	41 181 305	41 181 305	41 407 588	Level 2
– Listed bonds		–	–	–	6 818 546	6 818 546	6 896 747	
– Other fixed-term institutional deposits		–	–	–	4 334 000	4 334 000	4 203 602	
– Retail deposits		–	–	–	30 028 759	30 028 759	30 307 239	
Derivative liabilities ⁽¹⁾		–	22 128	–	–	22 128	22 128	Level 2
Trade and other payables	15	–	–	–	1 085 034	1 085 034	1 085 034	(2)
Provisions	16	–	–	–	64 268	64 268	64 268	(2)
2014								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	9 665 611	–	9 665 611	9 665 611	(2)
Investments designated at fair value	5	–	4 757 036	–	–	4 757 036	4 757 036	Level 2
Loans and advances to clients	7	–	–	30 052 850	–	30 052 850	32 676 984	Level 3
Other receivables	8	–	–	119 730	–	119 730	119 730	(2)
Derivative assets ⁽¹⁾	9	–	202 816	–	–	202 816	202 816	Level 2
Financial liabilities								
Deposits and bonds	14	–	–	–	35 448 678	35 448 678	35 588 222	Level 2
– Listed bonds		–	–	–	7 414 184	7 414 184	7 493 057	
– Other fixed-term institutional deposits		–	–	–	4 433 615	4 433 615	4 284 264	
– Retail deposits		–	–	–	23 600 879	23 600 879	23 810 902	
Derivative liabilities ⁽¹⁾	15	–	719	–	–	719	719	Level 2
Trade and other payables ⁽²⁾	15	–	–	–	748 007	748 007	748 007	(2)
Provisions	16	–	–	–	11 451	11 451	11 451	(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.

28.10 Fair value calculation methods, inputs and techniques

Investments designated at fair value

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

Loans and advances to clients

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

Derivative assets and liabilities

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

Deposits and bonds

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

- **Listed subordinated and senior bonds**

A market approach was used. Calculations used the all-in closing bond prices provided by the Johannesburg Stock Exchange's Interest Rate and Currency (JSE IRC) market. 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 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.

- **Unlisted wholesale fixed-term deposits and bonds**

These comprised unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability.

- **Retail fixed-term deposits**

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

R'000	GROUP		COMPANY	
	2015	2014	2015	2014

29. Retirement benefits

The group 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 group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 23.

	103 137	90 597	–	–
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Since 1 July 2001 it is compulsory for all new appointments to be members of the provident fund. The group will continue to contribute to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable.

30. Related-party transactions

Subsidiaries

Dividends

Ordinary dividend received	–	–	814 005	698 620
Preference dividend received	–	–	17 510	20 420
Capitec Bank Limited	–	–	831 515	719 040

Management fees received – Capitec Bank Limited

	–	–	2 570	2 235
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Investments in subsidiaries are disclosed in note 10.

Loans due (to)/from:

Capitec Bank Limited	–	–	12 142	9 668
Keymatrix Proprietary Limited	–	–	(1)	(1)

Parties with significant influence

Brokers' fees	70	45	–	–
Sponsor fees	84	75	84	75
PSG Group and subsidiaries⁽¹⁾	154	120	84	75

Key management

Key management employee's remuneration

Salaries and other short-term benefits	31 397	21 043	–	–
Post-employment benefits	2 169	1 892	–	–
Share-based payments	60 614	7 705	–	–
Key management compensation paid by subsidiaries⁽²⁾	94 180	30 640	–	–

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
30. Related-party transactions <i>(continued)</i>				
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme⁽³⁾				
Loans outstanding at the beginning of the year	128	2 250	–	–
Loans advanced during the year	429	1 940	–	–
Interest charged on loans during the year	7	78	–	–
Loan repayments during the year	(437)	(4 140)	–	–
Loans outstanding at the end of the year	127	128	–	–
Retail deposits from directors and other key management employees⁽⁴⁾				
Deposits at the beginning of the year	4 982	11 576	–	–
Interest earned during the year	697	362	–	–
(Withdrawals)/deposits made during the year	9 988	(6 956)	–	–
Deposits at the end of the year	15 667	4 982	–	–

Directors' interest in contracts

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

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

⁽²⁾ Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration.

⁽³⁾ Loans to directors and other key management employees by subsidiaries have fixed repayment terms and bear interest at the official rate of interest for individuals as determined by SARS.

⁽⁴⁾ Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.

30. Related-party transactions (continued)

Directors' interest in share capital

At year-end, the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 17 772 455 (2014: 19 907 784) Capitec Bank Holdings Limited shares, equivalent to 15.37%, (2014: 17.27%) of the issued share capital. The individual interests of the directors were as follows:

Ordinary shares	Number of shares held					
	Beneficial		Non-beneficial		Total shares	%
	Direct	Indirect **	Direct	Indirect **		
2015						
AP du Plessis*	30 825	1 009 392	—	—	1 040 217	0.90
MS du P le Roux (Chairman)	—	—	—	13 306 699	13 306 699	11.51
GM Fourie*	29 375	995 060	—	7 177	1 031 612	0.89
RJ Huntley	—	—	—	28 292	28 292	0.02
JD McKenzie	—	—	—	—	—	—
NS Mjoli-Mncube	75 400	—	—	—	75 400	0.07
PJ Mouton	—	12 540	—	—	12 540	0.01
CA Otto	1 064	—	—	499 400	500 464	0.43
G Pretorius	—	28 500	—	—	28 500	0.02
R Stassen	88 750	—	—	1 637 181	1 725 931	1.49
JP van der Merwe	22 800	—	—	—	22 800	0.02
	248 214	2 045 492	—	15 478 749	17 772 455	15.36
2014						
AP du Plessis*	1 008	1 199 392	—	—	1 200 400	1.04
MS du P le Roux (Chairman)	—	—	—	14 806 699	14 806 699	12.84
GM Fourie ⁽¹⁾	14 000	995 060	—	7 177	1 016 237	0.88
RJ Huntley	—	—	—	28 292	28 292	0.02
JD McKenzie	—	—	—	—	—	0.00
NS Mjoli-Mncube	125 400	—	—	—	125 400	0.11
PJ Mouton	—	12 540	—	—	12 540	0.01
CA Otto	1 064	—	—	609 400	610 464	0.53
G Pretorius	—	58 482	—	—	58 482	0.05
R Stassen ⁽²⁾	31 289	—	—	1 995 181	2 026 470	1.76
JP van der Merwe	22 800	—	—	—	22 800	0.02
	195 561	2 265 474	—	17 446 749	19 907 784	17.26

* Executive

** Includes shareholding through associates as defined in terms of the JSE Listings Requirements.

⁽¹⁾ Appointed 20 September 2013.

⁽²⁾ Retired on 31 December 2013 and remains involved as a non-executive director from 1 January 2014.

Preference shares	2015		2014	
	Number of shares	%	Number of shares	%
R Stassen (non-beneficial)	21 000	0.91	21 000	0.73
	21 000	0.91	21 000	0.73

30. Related-party transactions (continued)

Directors' interest in share incentive scheme – options

2015

Directors	Maturity date	Issue date	Strike price R	Opening balance	(Options exercised)/ Options granted		Exercise date	Closing balance
				Number of share options	Number of share options	Market price R		Number of share options
AP du Plessis (direct beneficial)	09 Apr 14	21 Apr 08	35.54	31 250	(31 250)	205.99	09 Apr 14	–
	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	3 750	(3 750)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	3 750	(3 750)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	3 125	–	–	–	3 125
	01 Apr 16	12 Apr 11	160.09	3 750	–	–	–	3 750
	01 Apr 16	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 16	15 Apr 14	196.43	–	5 936	–	–	5 936
	01 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
	01 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 17	15 Apr 14	196.43	–	5 936	–	–	5 936
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	–	5 937	–	–	5 937
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	–	5 937	–	–	5 937
				130 625	(63 754)			66 871
GM Fourie (direct beneficial)	09 Apr 14	21 Apr 08	35.54	28 125	(28 125)	205.99	09 Apr 14	–
	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)	205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	2 500	(2 500)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	2 500	(2 500)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	3 125	–	–	–	3 125
	01 Apr 16	12 Apr 11	160.09	2 500	–	–	–	2 500
	01 Apr 16	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 16	15 Apr 14	196.43	–	4 582	–	–	4 582
	01 Nov 16	01 Nov 13	209.83	6 875	–	–	–	6 875
	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 Nov 17	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	–	4 583	–	–	4 583
	01 Nov 18	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	–	4 583	–	–	4 583
	01 Nov 19	01 Nov 13	209.83	6 875	–	–	–	6 875
				150 000	(63 545)			86 455

30. Related-party transactions (continued)

Directors' interest in share incentive scheme – options

2015

Directors	Maturity date	Issue date	Strike price R	Opening balance	(Options exercised)/ Options granted		Exercise date	Closing balance
				Number of share options	Number of share options	Market price R		Number of share options
R Stassen (direct beneficial)	09 Apr 14	21 Apr 08	35.54	125 000	(125 000)	205.99	09 Apr 14	–
	09 Apr 14	15 Apr 09	31.23	62 500	(62 500)	222.50	23 May 14	–
	09 Apr 14	14 Apr 10	97.30	6 250	(6 250)	205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	7 500	(7 500)	205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	62 500	(62 500)	414.90	26 Feb 15	–
	26 Feb 15	14 Apr 10	97.30	6 250	(6 250)	414.90	26 Feb 15	–
	26 Feb 15	12 Apr 11	160.09	7 500	(7 500)	414.90	26 Feb 15	–
	26 Feb 15	11 Apr 12	198.52	12 500	(12 500)	414.90	26 Feb 15	–
	01 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
	01 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 16	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500
	01 Apr 17	11 Apr 12	198.52	12 500	–	–		12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–	–		12 500
				348 750	(290 000)			58 750
Total				629 375	(417 299)			212 076

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

2015

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

30. Related-party transactions *(continued)*

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

2015

Directors	Maturity date	Issue date	SARs exercise price R	Opening balance	(SARs exercised)/SARs granted		Market price R	Exercise date	Closing balance
				Number of SARs	Number of SARs				Number of SARs
GM Fourie (direct beneficial)	09 Apr 14	21 Apr 08	35.54	28 125	(28 125)		208.90	10 Apr 14	–
	09 Apr 14	15 Apr 09	31.23	18 750	(18 750)		208.90	10 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	3 125	(3 125)		208.90	10 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	2 500	(2 500)		208.90	10 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	18 750	–		–		18 750
	26 Feb 15	14 Apr 10	97.30	3 125	–		–		3 125
	26 Feb 15	12 Apr 11	160.09	2 500	–		–		2 500
	26 Feb 15	11 Apr 12	198.52	5 000	–		–		5 000
	01 Apr 16	14 Apr 10	97.30	3 125	–		–		3 125
	01 Apr 16	12 Apr 11	160.09	2 500	–		–		2 500
	01 Apr 16	11 Apr 12	198.52	5 000	–		–		5 000
	01 Apr 16	10 Apr 13	201.40	4 375	–		–		4 375
	01 Apr 16	15 Apr 14	0.01	–	1 556		–		1 556
	01 Apr 17	12 Apr 11	160.09	2 500	–		–		2 500
	01 Apr 17	11 Apr 12	198.52	5 000	–		–		5 000
	01 Apr 17	10 Apr 13	201.40	4 375	–		–		4 375
	01 Apr 17	15 Apr 14	0.01	–	1 556		–		1 556
	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 19	10 Apr 13	201.40	4 375	–		–		4 375
	01 Apr 19	15 Apr 14	0.01	–	1 557		–		1 557
	01 Nov 16	01 Nov 13	209.83	6 875	–		–		6 875
	01 Nov 17	01 Nov 13	209.83	6 875	–		–		6 875
	01 Nov 18	01 Nov 13	209.83	6 875	–		–		6 875
	01 Nov 19	01 Nov 13	209.83	6 875	–		–		6 875
				150 000	(46 275)				103 725
R Stassen (direct beneficial)	09 Apr 14	21 Apr 08	35.54	125 000	(125 000)		205.99	09 Apr 14	–
	09 Apr 14	15 Apr 09	31.23	62 500	(62 500)		205.99	09 Apr 14	–
	09 Apr 14	14 Apr 10	97.30	6 250	(6 250)		205.99	09 Apr 14	–
	09 Apr 14	12 Apr 11	160.09	7 500	(7 500)		205.99	09 Apr 14	–
	26 Feb 15	15 Apr 09	31.23	62 500	–		–		62 500
	26 Feb 15	14 Apr 10	97.30	6 250	–		–		6 250
	26 Feb 15	12 Apr 11	160.09	7 500	–		–		7 500
	26 Feb 15	11 Apr 12	198.52	12 500	–		–		12 500
	01 Apr 16	14 Apr 10	97.30	6 250	–		–		6 250
	01 Apr 16	12 Apr 11	160.09	7 500	–		–		7 500
	01 Apr 16	11 Apr 12	198.52	12 500	–		–		12 500
	01 Apr 17	12 Apr 11	160.09	7 500	–		–		7 500
	01 Apr 17	11 Apr 12	198.52	12 500	–		–		12 500
	01 Apr 18	11 Apr 12	198.52	12 500	–		–		12 500
				348 750	(201 250)				147 500
Total				629 375	(296 335)				333 040

30. Related-party transactions (continued)

Directors' remuneration

The total share option expense relating to directors amounted to R3 884 982 (2014: R3 942 608) and share appreciation rights expense amounted to R64 084 065 (2014: R39 470 824). This expense includes the movement on all tranches.

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2015						
Executive⁽¹⁾						
AP du Plessis	5 520	56	1 968	–	7 544	2 053
GM Fourie	6 408	205	2 127	–	8 740	1 585
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 200	1 200	–
RJ Huntley	–	–	–	283	283	–
JD McKenzie	–	–	–	483	483	–
NS Mjoli-Mncube	–	–	–	283	283	–
PJ Mouton	–	–	–	427	427	–
CA Otto	–	–	–	531	531	–
G Pretorius	–	–	–	283	283	–
R Stassen	–	–	–	283	283	–
JP van der Merwe	–	–	–	531	531	–
	11 928	261	4 095	4 304	20 588	3 638
2014						
Executive⁽¹⁾						
AP du Plessis	5 058	60	40	–	5 158	208
GM Fourie ⁽²⁾	2 373	28	35	–	2 436	327
R Stassen ⁽³⁾	8 859	105	88	–	9 052	–
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	260	260	–
JD McKenzie	–	–	–	445	445	–
NS Mjoli-Mncube	–	–	–	260	260	–
PJ Mouton	–	–	–	392	392	–
CA Otto	–	–	–	489	489	–
G Pretorius	–	–	–	260	260	–
R Stassen ⁽³⁾	–	–	–	40	40	–
JP van der Merwe	–	–	–	489	489	–
	16 290	193	163	3 675	20 321	535

⁽¹⁾ The executive directors are the prescribed officers of the company.

⁽²⁾ Appointed 20 September 2013.

⁽³⁾ Retired on 31 December 2013 and remains involved as a non-executive director from 1 January 2014. The executive remuneration includes remuneration from 1 March 2013 to 31 December 2013. The director's fee is for the period 1 January 2014 to 28 February 2014.

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
31. Cash flow from operations				
Net profit before tax	3 559 390	2 832 797	831 564	713 795
Adjusted for non-cash items				
Fair value adjustments on financial assets	(21 271)	19 083	–	–
Loan impairment charge	220 194	914 362	–	–
Depreciation	282 043	248 794	–	–
Amortisation	85 904	76 164	–	–
Net (profit)/loss on disposal/scraping of assets	(978)	80	–	–
Share-based employee costs – options	13 105	8 398	–	–
Loss on sale of associate / Share of profit of associates	886	(1 683)	–	–
Movements in assets and liabilities				
Loans and advances to clients	(2 651 241)	(3 032 358)	282	298
Other receivables	15 113	(92 299)	1 278	(93)
Derivatives	64 429	–	–	–
Deposits and bonds	5 732 627	6 368 698	–	–
Trade and other payables	356 321	75 739	5	(18)
Movements in provisions	52 817	(16 998)	–	–
Share-based employee costs – share appreciation rights	3 135	(61 729)	–	–
Cash flow from operations	7 712 474	7 339 048	833 129	713 982
32. Income taxes paid				
Balance at the beginning of the year	(22 529)	46 007	(10)	–
Income statement charge	995 791	795 243	38	–
Movement in deferred tax	71 332	(21 252)	–	–
Tax effect on settlement of share options taken to equity	(45 522)	(12 576)	–	–
Balance at the end of the year	37 635	22 529	–	10
Income tax paid	1 036 707	829 951	28	10
33. Dividends paid				
Balance at the beginning of the year	11 810	11 259	11 810	11 259
Dividend declared during the year:				
Ordinary dividend	813 837	698 458	814 004	698 620
Preference dividend	17 510	20 420	17 510	20 420
Balance at the end of the year	(10 790)	(11 810)	(10 790)	(11 810)
Dividends paid	832 367	718 327	832 534	718 489
34. Realised loss on settlement of employee share options less participants' contributions				
328 996 (2014: 856 276) ordinary shares issued	(136 501)	(181 970)	–	–
Shares acquired	(140 918)	–	–	–
Fair value of shares utilised to settle share options	(277 419)	(181 970)	–	–
Proceeds on settlement of options	56 276	32 787	–	–
	(221 143)	(149 183)	–	–

R'000	GROUP		COMPANY	
	2015	2014	2015	2014
35. Commitments and contingent liabilities				
Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	307 476	255 012	–	–
From one to five years	835 503	738 757	–	–
After five years	214 233	215 552	–	–
Total future cash flows	1 357 212	1 209 321	–	–
Straight-lining accrued	(70 473)	(57 201)	–	–
Future expenses	1 286 739	1 152 120	–	–
Other operating lease commitments				
Within one year	1 107	2 023	–	–
From one to five years	365	1 472	–	–
	1 472	3 495	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	54 400	26 622	–	–
Intangible assets	9 442	8 456	–	–
Not contracted for				
Property and equipment	496 697	397 505	–	–
Intangible assets	132 395	138 914	–	–
	692 934	571 497	–	–

Contingent liabilities

Alleged contravention of the NCA

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

Participation in consortium underwriting the recapitalisation of African Bank

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

36. Borrowing powers

In terms of the memorandum of incorporation of Capitec Bank Holdings 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, 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.

37. Share incentive scheme

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

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

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

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

37. Share incentive scheme (*continued*)

Analysis of outstanding share options by year of maturity	2015		2014	
	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2014/2015	185.37	4 837	44.72	694 896
2015/2016	60.35	19 779	77.23	353 612
2016/2017	181.02	234 908	166.90	177 028
2017/2018	200.38	190 163	189.96	132 283
2018/2019	209.21	155 976	200.37	98 091
2019/2020	214.70	104 766	202.97	46 875
	194.03	710 429	94.65	1 502 785
Number			2015	2014
Shares available from previous periods			–	4 014
Shares purchased/issued during the year			1 023 267	856 276
Shares utilised for settlement of options			(1 023 267)	(860 290)
Shares available for settlement of options			–	–
Settled in shares			(1 023 267)	(860 290)
Options exercised			(1 023 267)	(860 290)

38. Share option expense

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.

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing	Risk-free rate %	Number of options outstanding	Fair value on issue/re-pricing date ignoring vesting conditions R'000	Expected vesting proportion ⁽¹⁾ %	Value taking into account expected vesting proportion R'000
2009/2010	45.49	61.50	36.8	3.5	2015/2016	8.8	12 500	337	95.5	321
	61.05	64.00	36.7	3.4	2015/2016	8.8	4 095	98	94.9	93
2010/2011	97.30	100.20	35.9	2.4	2016/2017	8.2	41 565	1 665	92.4	1 538
	117.79	129.00	35.5	2.2	2015/2016	7.2	3 184	157	97.0	152
		129.00	35.5	2.2	2016/2017	7.5	3 184	169	90.2	152
2011/2012	160.09	168.00	34.4	1.9	2014/2015 ⁽²⁾	7.8	937	54	100.0	54
		168.00	34.4	1.9	2016/2017	8.0	34 193	2 212	92.2	2 038
		168.00	34.4	1.9	2017/2018	8.2	34 193	2 398	85.7	2 056
2012/2013	182.40	187.05	33.1	2.8	2014/2015 ⁽²⁾	6.3	1 713	81	100.0	81
		187.05	33.1	2.8	2016/2017	6.7	1 713	93	93.0	86
		187.05	33.1	2.8	2017/2018	6.9	1 713	102	86.5	88
		187.05	33.1	2.8	2018/2019	7.1	1 714	110	80.4	89
	198.52	206.25	32.9	2.7	2014/2015 ⁽²⁾	6.4	2 187	115	100.0	115
		206.25	32.9	2.7	2016/2017	6.8	49 498	3 028	92.1	2 790
		206.25	32.9	2.7	2017/2018	6.9	49 502	3 331	85.8	2 857
		206.25	32.9	2.7	2018/2019	7.2	49 502	3 595	79.8	2 868
2013/2014	201.40	217.50	32.1	3.0	2016/2017	5.2	38 125	2 254	92.1	2 076
		217.50	32.1	3.0	2017/2018	5.4	38 125	2 550	85.7	2 186
		217.50	32.1	3.0	2018/2019	5.6	38 125	2 839	79.8	2 265
		217.50	32.1	3.0	2019/2020	5.8	38 125	3 071	74.2	2 280
	209.83	213.50	32.1	3.0	2016/2017	6.8	8 750	502	88.6	445
		213.50	32.1	3.0	2017/2018	7.2	8 750	586	82.4	483
		213.50	32.1	3.0	2018/2019	7.5	8 750	658	76.6	504
		213.50	32.1	3.0	2019/2020	7.7	8 750	721	71.2	514
2014/2015	196.43	206.50	31.5	1.9	2016/2017	6.9	29 880	1 502	92.4	1 387
		206.50	31.5	1.9	2017/2018	7.3	29 880	1 835	85.9	1 577
		206.50	31.5	1.9	2018/2019	7.5	29 885	2 111	79.9	1 687
		206.50	31.5	1.9	2019/2020	7.7	29 891	2 344	74.3	1 743
	253.82	288.32	31.2	1.9	2016/2017	6.3	28 000	2 212	88.6	1 959
		288.32	31.2	1.9	2017/2018	6.7	28 000	2 613	82.4	2 152
		288.32	31.2	1.9	2018/2019	6.6	28 000	2 903	76.6	2 223
		288.32	31.2	1.9	2019/2020	6.8	28 000	3 164	71.2	2 254
Grand total							710 429	49 410	83.2	41 113

⁽¹⁾ Executive staff turnover of 7% p.a. (2014: 7%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.

⁽²⁾ The Remuneration committee approved a change in the exercise date of all share options, maturing in March 2015 and April 2015, to be exercised from February 2015.

39. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

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

Year granted	Strike price	Year maturing	Risk-free rate %	Number of share appreciation rights outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion ⁽²⁾ %	Liability at year-end R'000
2009/2010	31.23	2014/2015 ⁽⁴⁾	6.1	133 125	49 265	100.0	100.0	49 265
	45.49	2015/2016	6.1	12 500	4 515	89.3	95.5	3 849
	61.05	2015/2016	6.1	4 095	1 417	88.7	95.2	1 197
2010/2011	97.30	2014/2015 ⁽⁴⁾	6.1	18 125	5 525	100.0	100.0	5 525
		2016/2017	6.3	41 565	12 902	81.7	92.4	9 735
	117.79	2015/2016	6.1	3 184	929	91.5	97.0	824
		2016/2017	6.3	3 184	-	76.2	90.2	-
2011/2012	160.09	2014/2015 ⁽⁴⁾	6.1	19 624	4 764	100.0	100.0	4 764
		2016/2017	6.3	34 193	8 606	78.0	92.4	6 204
		2017/2018	6.6	34 193	8 526	65.0	85.9	4 759
2012/2013	182.40	2014/2015 ⁽⁴⁾	6.1	1 713	389	100.0	100.0	389
		2016/2017	6.3	1 713	395	74.8	92.9	275
		2017/2018	6.6	1 713	402	59.9	86.4	208
		2018/2019	6.8	1 714	410	49.9	80.4	164
	198.52	2014/2015 ⁽⁴⁾	6.1	31 562	6 440	100.0	100.0	6 440
		2016/2017	6.3	49 498	10 690	72.5	92.4	7 160
		2017/2018	6.6	49 502	10 968	57.9	85.9	5 459
		2018/2019	6.8	49 502	11 253	48.2	79.9	4 337
2013/2014	201.40	2016/2017	6.3	38 125	8 133	63.3	92.4	4 755
		2017/2018	6.6	38 125	8 357	47.4	85.9	3 402
		2018/2019	6.8	38 125	8 586	37.9	79.9	2 598
		2019/2020	6.9	38 125	8 795	31.5	74.3	2 061
	209.83	2016/2017	6.4	8 750	1 438	44.1	88.5	562
		2017/2018	6.7	8 750	1 892	33.1	82.3	515
		2018/2019	6.8	8 750	1 948	26.5	76.6	395
		2019/2020	7.0	8 750	1 997	22.0	71.2	314
2014/2015 ⁽³⁾	0.00	2016/2017	6.3	10 147	3 035	44.4	92.4	1 243
		2016/2017	6.4	9 500	3 771	15.9	88.5	531
		2017/2018	6.6	10 147	3 996	29.4	85.9	1 009
		2017/2018	6.7	9 500	3 699	10.6	82.3	323
		2018/2019	6.8	10 149	3 920	22.0	79.9	688
		2018/2019	6.8	9 500	3 628	8.0	76.6	221
		2019/2020	6.9	10 154	3 847	17.5	74.3	502
		2019/2020	7.0	9 500	3 559	6.4	71.2	161
				756 802	207 997	66.6	93.7	129 834

Note

15

⁽¹⁾ All rights were valued using the Black-Scholes model and the following variables: Dividend yield 1.9%
Volatility 31.2%
Ex dividend share price (cents) 402.32

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

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

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

40. Derivative financial instruments: economic hedges

	Notional		Fair values	
	USD	ZAR	Assets	Liabilities
	\$'000	R'000	R'000	R'000
2015				
Forward foreign exchange contracts	1 942	20 976	(1 513)	–

2014

Forward foreign exchange contracts	3 885	40 951	(982)	19
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Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R21 million (2014: R41 million).

41. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values	
		Assets	Liabilities
2015			
Interest rate swaps	6 130 349	(29 273)	22 127
Cross currency interest rate swaps	343 500	(5 060)	1
Net	6 473 849	(34 333)	22 128

2014

Interest rate swaps	3 989 349	(99 533)	700
Cross currency interest rate swaps	396 900	(102 301)	–
Net	4 386 249	(201 834)	700

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
2015					
Discounted swap cash flows	1 870	(1 100)	(327)	(7 589)	(7 146)
Discounted cross currency interest rate swap cash flows	–	6 197	17 508	(28 764)	(5 059)
Net	1 870	5 097	17 181	(36 353)	(12 205)
2014					
Discounted swap cash flows	–	(384)	(29 573)	(68 876)	(98 833)
Discounted cross currency interest rate swap cash flows	–	4 410	12 944	(119 655)	(102 301)
Net	–	4 026	(16 629)	(188 531)	(201 134)

Gains and losses recognised in comprehensive income (note 18) 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.

41. Derivative financial instruments: cash flow hedges (continued)

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

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

The fair value adjustment transferred to the income statement amounted to a cost of R36.6 million (2014: R53.2 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 2015 and 2014. There were no transactions for which cash flow hedge accounting had to be discontinued in 2015 and 2014 as a result of highly probable cash flow no longer being expected to occur.

42. Shareholders holding more than 5% of the company's ordinary shares

2015	Shares held Number	Shareholding %
Shareholder		
PSG Financial Services Limited	35 484 898	30.69
Public Investment Corporation	14 061 033	12.16
Limietberg Beleggings 240 Proprietary Limited	7 047 063	6.09

43. Black economic empowerment shareholding

2015	Shares held Number	Shareholding %
Shareholder		
Isibaya Fund	5 284 735	4.57
Coral Lagoon Investments 194 Proprietary Limited	4 715 265	4.08
Nonhlanhla Mjoli-Mncube	75 400	0.07
	10 075 400	8.72

44. Shareholding by executive management⁽¹⁾

2015	Shares held Number	Shareholding %
Shareholder		
JE Carstens	53 821	0.05
W de Bruyn	43 788	0.04
CG Fischer	1 019 986	0.88
HAI Lourens	511 102	0.44
NST Motjuwadi	3 149	0.00
A Olivier	267 500	0.23
C Oosthuizen	94 250	0.08
CG van Schalkwyk	554 198	0.48
L Venter	474 214	0.41
	3 022 008	2.61

⁽¹⁾ Executive directors' shareholdings are presented in the related parties note.

45. Post balance sheet events

New regulations dealing with the assessment of affordability under the National Credit Act, no. 34 of 2005, were published on 13 March 2015. The regulations came into effect on date of publication. Although we comply substantially, adjustments are being implemented to achieve full compliance. We support proper regulation enhancing sustainability of the credit industry.

The directors are not aware of any other event which is material to the financial position of the company or the group that has occurred between the balance sheet date and the date of approval of the financial statements.

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	6 386	78.91	1 579 267	1.37
1 001 – 10 000	1 312	16.21	4 025 173	3.48
10 001 – 100 000	298	3.68	9 694 347	8.38
100 001 and over	97	1.20	100 328 204	86.77
	8 093	100.00	115 626 991	100.00

Shareholder spread

Public shareholders	8 067	99.68	48 273 544	41.75
Holdings less than 5%	8 067	99.68	48 273 544	41.75
There are no public shareholders that hold 5% or more	–	–	–	–
Non-public shareholders excluding directors and their associates	3	0.04	49 581 751	42.88
Holdings of 5% or less	1	0.01	320 000	0.28
Trustee of the Capitec Bank Holdings Share Trust	1	0.01	320 000	0.28
Holdings of 5% or more	2	0.02	49 261 751	42.60
PSG Financial Services Limited	1	0.01	35 484 898	30.69
Government Employee Pension Fund	1	0.01	13 776 853	11.91
Directors (refer page 170 for detail)	23	0.28	17 771 696	15.37
Directors of company or any subsidiaries	6	0.07	248 214	0.21
Associates of directors of the company or any of its subsidiaries	17	0.21	17 523 482	15.16
	8 093	100.00	115 626 991	100.00

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	468	57.49	200 825	8.75
1 001 – 10 000	305	37.47	1 012 175	44.10
10 001 – 100 000	41	5.04	1 082 211	47.15
100 001 and over	–	–	–	–
	814	100.00	2 295 211	100.00

Shareholder spread

Public shareholders	813	99.88	2 274 211	99.09
Holdings less than 5%	813	99.88	2 274 211	99.09
There are no public shareholders that hold 5% or more	–	–	–	–
Non-public shareholders excluding directors and/or their associates	–	–	–	–
There are no non-public shareholders (excluding directors and their associates) holding less than 5%	–	–	–	–
Directors (refer page 170 for detail)	1	0.12	21 000	0.91
None of the directors hold preference shares	–	–	–	–
Associate of a director of the company or any of its subsidiaries	1	0.12	21 000	0.91
	814	100.00	2 295 211	100.00

Special resolutions of subsidiaries

The following special resolutions were passed by Capitec Bank Limited ('Capitec Bank' or 'the bank') during the financial year under review:

1. Special resolution number 1

'Resolved, in terms of clause 6.10 of the memorandum of incorporation of the Bank, and section 41(3) of the Act that all unissued shares in the authorised share capital of the Bank ('Shares') be placed under the control of the directors until the next annual general meeting of Capitec Bank and the directors be authorised by way of a general authority, to issue any such Shares or securities convertible into Shares as they may deem fit, subject to the further provisions of the Act, the Banks Act (Act 94 of 1990), as amended (the 'Banks Act'), and the requirements of JSE Limited as may be applicable.'

2. Special resolution number 2

'Resolved, in terms of section 66(9) of the Act, and in accordance with special resolution 2 of the minutes of the annual general meeting of the shareholders of Capitec Bank Holdings Limited ('Capitec'), dated 30 May 2014, dealing with the directors' fees for the 2015 financial year, that Capitec Bank pays the stated directors' fees to the said boards of Capitec and Capitec Bank.'

3. Special resolution number 3

'Resolved that, in terms of section 45(3)(a)(ii) of the Act, and subject to the Act, the board be and is hereby authorised, by way of a general approval, to authorise the Bank to provide, at any time and from time to time during the period of two years commencing on the date of this special resolution number 3, any financial assistance (as envisaged in sections 45(1) and 45(2) of the Act), on the terms and conditions and for such amounts as the board may determine.'

4. Special resolution number 4

'Resolved that the Bank be authorised, for a period up to 15 months from the date of this resolution, as a general approval, to repurchase any of the shares issued by the Bank upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of sections 46 and 48 of the Act, the Banks Act, the Listings Requirements of the JSE Limited ('JSE'), as applicable and the memorandum of incorporation of the Bank.'

The following special resolutions were passed by Capitec Properties Limited during the financial year under review:

1. Special resolution 1

'In accordance with the provisions of regulation 31 of the Companies Regulations issued pursuant to the Act, the authorised share capital of the company, consisting of a single class of unissued and issued ordinary shares with a par value of R1.00 (100 cent) each ('the shares'), be reorganised by the conversion of each of the shares into authorised ordinary shares of no par value, on the basis that each ordinary no par value share shall have the value, preferences, rights and limitations equivalent to the value, preferences, rights and limitations which were attached to the shares immediately prior to the aforementioned conversion.'

The effect of special resolution 1 is that the authorised share capital of the company will, after conversion, consist of ordinary shares with no par value, however, the value, preferences, rights and limitations attaching to these no par value ordinary shares will not be altered as a result of the conversion; and that

2. Special resolution 2

'Subject to the approval of special resolution 1, in terms of section 36(2) of the Act, the memorandum of incorporation of the company be and is hereby amended by the deletion of the entire paragraph 8 detailing the authorised share capital of the company and the substitution thereof with the following new paragraph 8:

CAPITAL

The company is authorised to issue the following shares:

10 000 000 (ten million) ordinary no par value Shares of the same class, each of which ranks pari passu in respect of all rights.'

The effect of this special resolution 1 is that the memorandum of incorporation of the company will be corrected to reflect the authorised share capital of the company as consisting of 10 million ordinary shares of no par value.

3. Special resolution 3

'Resolved in terms of section 16(1)(c)(ii) of the Act, that the company hereby approves and adopts in terms of section 16(5)(a) of the Act, a new memorandum of incorporation ('MOI') in substitution for the existing memorandum of incorporation. The MOI becomes effective on the date of filing of the notice of the new MOI with the Companies and Intellectual Properties Commission.'

The effect of special resolution 3 is that the company will have adopted a new memorandum of incorporation aligned with the Act.

The following special resolutions were passed by Keymatrix Limited during the financial year under review:

1. Special resolution 1

'In accordance with the provisions of regulation 31 of the Companies Regulations issued pursuant to the Act, the authorised share capital of the company, consisting of a single class of unissued and issued ordinary shares with a par value of R1.00 (100 cent) each ('the shares'), be reorganised by the conversion of each of the shares into authorised ordinary shares of no par value, on the basis that each ordinary no par value share shall have the value, preferences, rights and limitations equivalent to the value, preferences, rights and limitations which were attached to the shares immediately prior to the aforementioned conversion.'

The effect of special resolution 1 is that the authorised share capital of the company will, after conversion, consist of ordinary shares with no par value, however, the value, preferences, rights and limitations attaching to these no par value ordinary shares will not be altered as a result of the conversion; and that

2. Special resolution 2

'Subject to the approval of special resolution 1, in terms of section 36(2) of the Act, the memorandum of incorporation of the company be and is hereby amended by the deletion of the entire paragraph 8 detailing the authorised share capital of the company and the substitution thereof with the following new paragraph 8:

CAPITAL

The company is authorised to issue the following shares:

1 000 (one thousand) ordinary no par value shares of the same class, each of which ranks pari passu in respect of all rights.'

The effect of special resolution 2 is that the memorandum of incorporation of the company will be amended to reflect the authorised share capital of the company as consisting of shares of no par value.

3. Special resolution 3

'Resolved in terms of section 16(1)(c)(ii) of the Act, that the company hereby approves and adopts in terms of section 16(5)(a) of the Act, a new memorandum of incorporation ('MOI') in substitution for the existing memorandum of incorporation. The MOI becomes effective on the date of filing of the notice of the new MOI with the Companies and Intellectual Properties Commission.'

The effect of special resolution 3 is that the company will have adopted a new memorandum of incorporation aligned with the Act.

The following special resolutions were passed by Keynes Rational Corporate Services Limited during the financial year under review:

1. Special resolution 1

'In accordance with the provisions of regulation 31 of the Companies Regulations issued pursuant to the Act, the authorised share capital of the company, consisting of a single class of unissued and issued ordinary shares with a par value of R1.00 (100 cent) each ('the shares'), be reorganised by the conversion of each of the shares into authorised ordinary shares of no par value, on the basis that each ordinary no par value share shall have the value, preferences, rights and limitations equivalent to the value, preferences, rights and limitations which were attached to the shares immediately prior to the aforementioned conversion.'

The effect of special resolution 1 is that the authorised share capital of the company will, after conversion, consist of ordinary shares with no par value; however, the value, preferences, rights and limitations attaching to these no par value ordinary shares will not be altered as a result of the conversion; and that

2. Special resolution 2

'Subject to the approval of special resolution 1, in terms of section 36(2) of the Act, the memorandum of incorporation of the company be and is hereby amended by the deletion of the entire paragraph 8 detailing the authorised share capital of the company and the substitution thereof with the following new paragraph 8:

CAPITAL

The company is authorised to issue the following shares:

4 000 (four thousand) ordinary no par value shares of the same class, each of which ranks pari passu in respect of all rights.'

The effect of special resolution 2 is that the memorandum of incorporation of the company will be amended to reflect the authorised share capital of the company as consisting of shares of no par value.

3. Special resolution 3

'Resolved in terms of section 16(1)(c)(ii) of the Act, that the company hereby approves and adopts in terms of section 16(5)(a) of the Act, a new memorandum of incorporation ('MOI') in substitution for the existing memorandum of incorporation. The MOI becomes effective on the date of filing of the notice of the new MOI with the Companies and Intellectual Properties Commission.'

The effect of special resolution 3 is that the company will have adopted a new memorandum of incorporation aligned with the Act.

Glossary 12





Acronym	Description	Acronym	Description
AGM	Annual general meeting	ICR	Individual capital requirement
ALCO	Asset and liability committee	IFRS	International Financial Reporting Standards
ALM	Asset and liability management	IIRC	International Integrated Reporting Council
ALSI	JSE All Share Index	IIRF	International Integrated Reporting Framework
AMPS	All Media and Products Survey	IRM	Integrated risk management
AT1	Additional tier 1	ISMS	Information security management system
ATM	Automated Teller Machine	IT	Information Technology
BASA	Banking Association of South Africa	JIBAR	Johannesburg Interbank Agreed Rate
Basel	Basel Committee on Banking Supervision	JSE	Johannesburg Stock Exchange
B-BBEE	Broad-based Black Economic Empowerment	King III	The 2009 King Report on Corporate Governance
C.Connect	Electronic Communications	LCR	Liquidity coverage ratio
C.Net	Web-based employee portal	LDT	Last day of trade
Capitec	Capitec Bank Holdings Limited	LRP	Liquidity recovery plan
Capitec Bank	Capitec Bank Limited	LSM	Living standards measure
Capitec Bank pillars	Simplicity, Affordability, Accessibility and Personal Service	Moody's	Moody's Investors Services Inc.
CCS	Centralised collection services	NACM	Nominal annual compounded monthly
CET1	Common equity tier 1	NAEDO	Non-authenticated early debit order
CMT	Continuity management team	NCA	National Credit Act, 2005
CPA	Credit Providers Association	NCD	Negotiable Certificate of Deposit
CSI	Corporate Social Investment	NCR	National Credit Regulator
DEFRA	UK Department for Environment, Food and Rural Affairs	NSFR	Net stable funding ratio
DMTN	Domestic Medium Term Note Programme	OCR	Optical character recognition
DPS	Dividends per share	PASA	Payments Association of South Africa
DR	Disaster recovery	PD	Probability of default
D-SIB	Domestically systemically important bank	POCA	Prevention of Organised Crime Act, 1998
EEA2	Employment Equity Act form 2	Polproc	Policies and procedures department
EPS	Earnings per Share	POS	Point-of-sale Merchant
EXCO	Executive management committee	PwC	Pricewaterhouse Coopers Inc.
FICA	Financial Intelligence Centre Act, 2001	RCMC	Risk and capital management committee
FRN	Floating rate note	REMCO	Human resources and remuneration committee
FSC	Forest Stewardship Council	RISCO	Risk committee
GDP	Gross domestic product	ROE	Return on equity
GHG	Greenhouse gas	SAMOS	South African Multiple Options Settlement
GRI	Global reporting initiative	SARB	South African Reserve Bank
HEPS	Headline Earnings per Share	SARS	South African Revenue Service
IA	Internal Audit	SARs	Share Appreciation Rights
IAR	Integrated annual report	Stats SA	Statistics South Africa
ICAAP	Internal capital adequacy assessment process	T2	Tier 2
		The group	Capitec Bank Holdings Limited and subsidiaries
		WACC	Weighted Average Cost of Capital

Shareholders' calendar

Financial year-end

28 February 2015

Profit announcement

24 March 2015

Integrated annual report

May 2015

Annual general meeting

29 May 2015

Interim report

September 2015

Ordinary dividend

JSE code

CPI

ISIN

ZAE 000035861

Final dividend number 22 will be paid on 20 April 2015

Salient dates for the dividend payment were:

Last day to trade cum dividend

Friday, 10 April 2015

Record date

Friday, 17 April 2015

Administration and addresses

Capitec Bank Holdings Limited

Registration number

1999/025903/06

Auditors

PricewaterhouseCoopers Inc.

Directors

MS du Pré le Roux (Chairman)

GM Fourie (Chief executive officer)

AP du Plessis (Chief financial officer)

RJ Huntley (Ms)

JD McKenzie

NS Mjoli-Mncube (Ms)

PJ Mouton

CA Otto

G Pretorius

R Stassen

JP van der Merwe

Secretary

CG van Schalkwyk

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