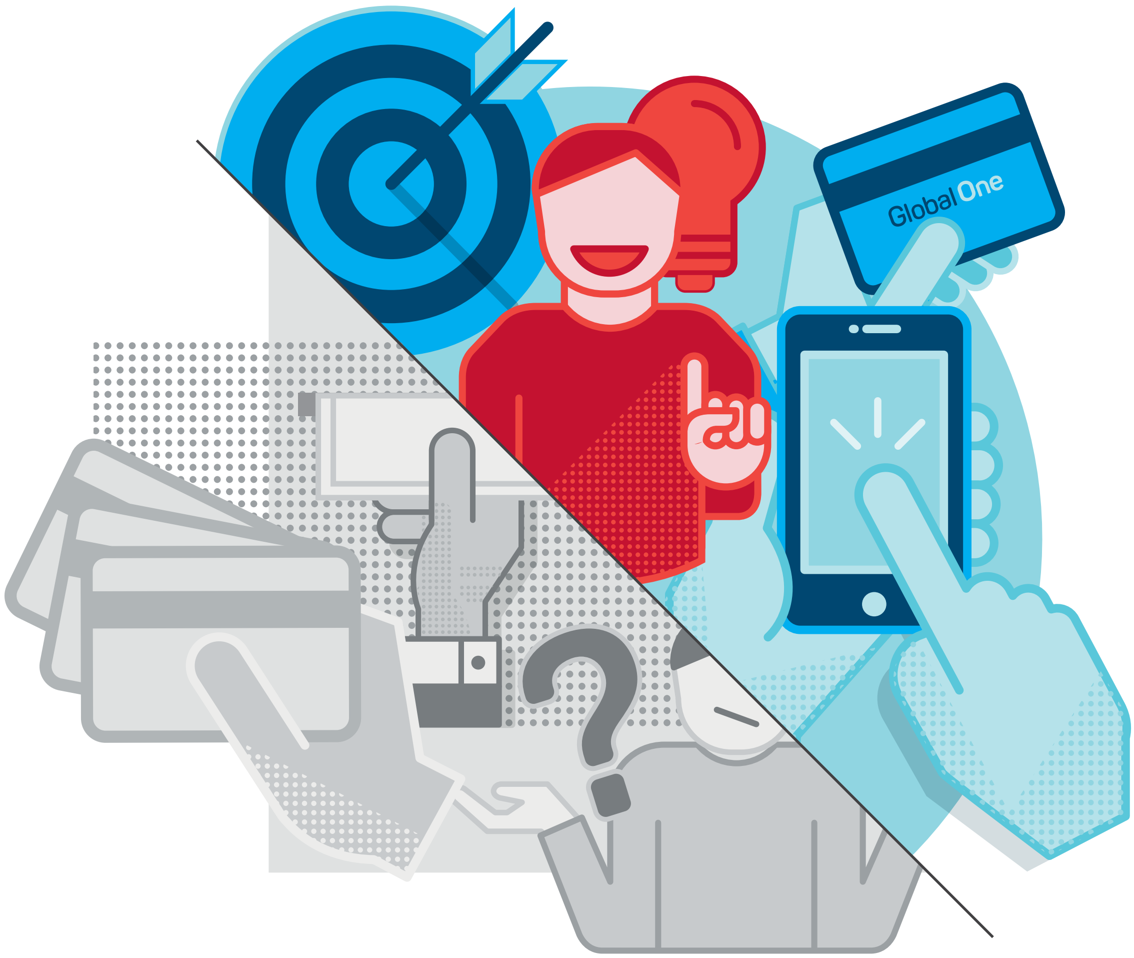
CAPITEC
BANK
HOLDINGS LIMITED

Integrated Annual Report 2016



Bank better,
live better

Approach to integrated reporting

Our success story to date and why we are more than just a bank.

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 Global Reporting Initiative (GRI) sustainability reporting guidelines and the International Integrated Reporting Council (IIRC) framework for integrated reporting. Lengthy standard disclosures have been purposely avoided to ensure that it remains relevant to Capitec and its 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.

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.

This report encompasses Capitec's operations, which are conducted exclusively within South Africa, and covers the period from 1 March 2015 to 29 February 2016. 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 99% of Capitec's profit for the financial year ended 29 February 2016 (2015: 96%) 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 remaining subsidiaries and associate in the group 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 29 March 2016.

Assurance regarding the annual financial statements is provided by the independent auditor's report contained therein. 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:

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Die Boord,
Stellenbosch,
7600

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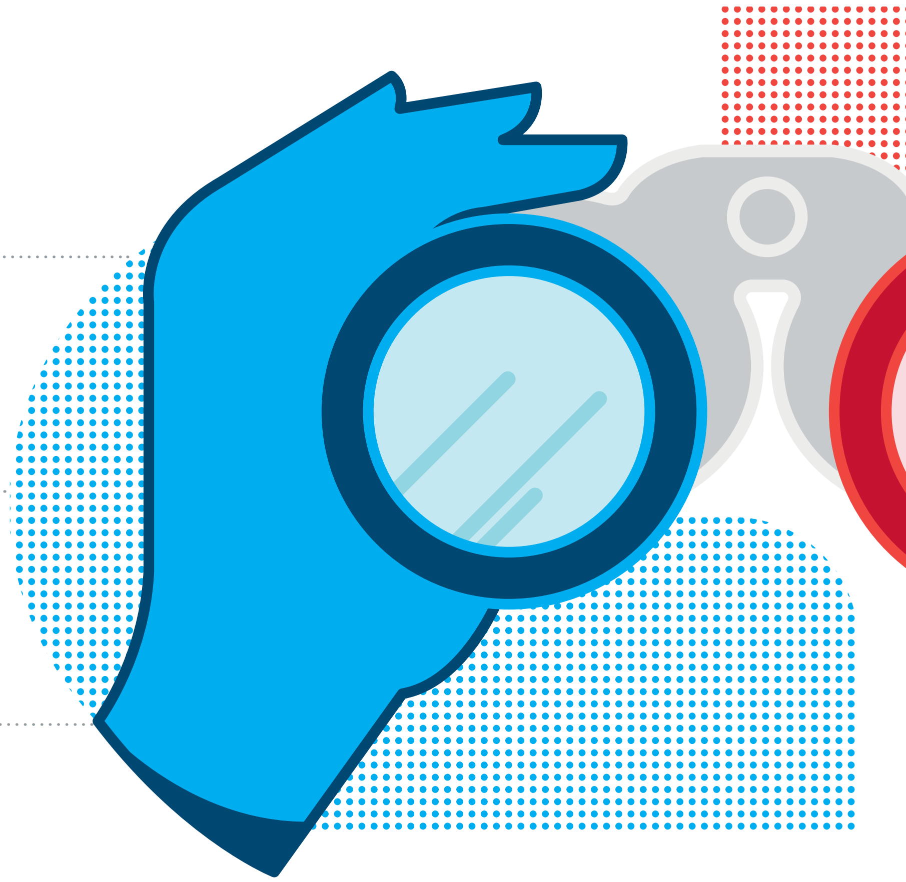
What does Capitec look like?

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



Board of directors

15.1%

(2015: 15.4%)

Executive management committee

2.1%

(2015: 2.6%)

PSG Group

30.7%

(2015: 30.7%)

Direct black ownership*

8.7%

(2015: 8.7%)

Free float

43.4%

(2015: 42.6%)

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 59 – 64

* *Refer to page 181 for details regarding direct black ownership.*

100%

Capitec Bank Limited

1980/003695/06
Retail Bank
Incorporated in RSA
www.capitecbank.co.za

Products		**Transacting** **Saving** **Credit**	For individuals
Clients		**7.3m**	*(2015: 6.2m)*
Branches		**720**	*(2015: 668)*
Employees		**11 440**	*(2015: 10 261)*
Revenue		**R18.3bn**	*(2015: R15.7bn)*
Profit after tax		**R3.2bn**	*(2015: R2.5bn)*
Total assets		**R62.9bn**	*(2015: R53.9bn)*
Funding	Ordinary equity:	**R13.6bn**	*(2015: R11.5bn)*
	Debt:	**R49.3bn**	*(2015: R42.4bn)*

100%

Capitec Properties Proprietary Limited

1998/007658/07
Property holding company
Incorporated in RSA

100%

Dormant companies

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

Key Performance Indicators (KPIs)

We are extremely proud of our results and growth this financial year in challenging conditions.

Financial highlights

Headline earnings (R'm)

2016	2015	2014
R3 222	R2 547	R2 017

Headline earnings per share (cents)

2016	2015	2014
2 787	2 209	1 752

Return on ordinary shareholders' equity

2016	2015	2014
27%	25%	23%

Net transaction fee income (R'm)

2016	2015	2014
R3 020	R2 608	R1 927

Cost-to-income ratio

2016	2015	2014
34%	35%	32%

Stakeholder highlights

Employees

98 average net appointments per month

6 941 face-to-face learning interventions

31 660 distance learning activities completed

Clients

1 025 000 new active clients

3.7m number of loans advance

52 new branches

287 additional ATMs

Shareholders

R3.2bn net profit

1 055c total dividend per share

R13.7bn shareholders' funds

Key performance indicators

		2016	2015	Change (%)	2014	2013
Profitability						
Interest income	R'm	12 475	10 783	16	9 434	7 085
Net loan fee income	R'm	855	619	38	841	1153
Net transaction fee income	R'm	3 020	2 608	16	1 927	1 349
Interest paid	R'm	(2 884)	(2 426)	19	(2 133)	(1 663)
Other income	R'm	(1)	22		(19)	–
Income from operations	R'm	13 465	11 606	16	10 050	7 924
Net loan impairment expense	R'm	(4 401)	(4 014)	10	(3 976)	(2 659)
Net income	R'm	9 064	7 592	19	6 074	5 265
Operating expenses	R'm	(4 591)	(4 031)	14	(3 242)	(2 994)
Non-banking operations	R'm	–	(1)		2	7
Income before tax	R'm	4 473	3 560	26	2 834	2 278
Tax	R'm	(1 244)	(995)	25	(797)	(673)
Preference dividend	R'm	(16)	(18)	(11)	(20)	(21)
Earnings attributable to ordinary shareholders						
• Basic	R'm	3 213	2 547	26	2 017	1 584
• Headline	R'm	3 222	2 547	26	2 017	1 584
Net transaction fee income to net income	%	33	34		32	26
Net transaction fee income to operating expenses	%	66	65		59	45
Cost-to-income ratio	%	34	35		32	38
Return on ordinary shareholders' equity	%	27	25		23	27
Earnings per share						
• Attributable	cents	2 779	2 209	26	1 752	1 519
• Headline	cents	2 787	2 209	26	1 752	1 519
• Diluted attributable	cents	2 773	2 206	26	1 740	1 498
• Diluted headline	cents	2 781	2 206	26	1 740	1 498
Dividends per share						
• Interim	cents	375	246	52	203	169
• Final	cents	680	590	15	460	405
• Total	cents	1 055	836	26	663	574
Dividend cover	x	2.6	2.6		2.6	2.6
Assets						
Net loans and advances	R'm	35 760	32 484	10	30 053	27 935
Cash and short-term funds	R'm	24 989	19 755	26	14 423	9 166
Other	R'm	2 196	1 678	31	1 715	1 246
Total assets	R'm	62 945	53 917	17	46 191	38 347
Liabilities						
Deposits	R'm	47 940	41 181	16	35 449	29 000
Other	R'm	1 346	1 172	15	760	834
Total liabilities	R'm	49 286	42 353	16	36 209	29 834
Equity						
Shareholders' funds	R'm	13 659	11 564	18	9 982	8 513
Capital adequacy ratio	%	35	36		39	41
Net asset value per ordinary share	cents	11 663	9 822	19	8 433	7 212

		2016	2015	Change (%)	2014	2013
Share price	cents	**47 400**	41 000	16	18 375	18 800
Market capitalisation	R'm	**54 807**	47 407	16	21 186	21 515
Number of shares in issue	'000	**115 627**	115 627		115 298	114 442
Share options						
• Number outstanding	'000	**868**	710	22	1 503	2 177
• Number outstanding to shares in issue	%	**0.8**	0.6		1.3	2
• Average strike price	cents	**28 520**	19 403	47	9 465	6 294
• Average time to maturity	months	**27**	28	(4)	16	15
Operations						
Branches		**720**	668	8	629	560
Employees		**11 440**	10 261	11	9 070	8 308
Active clients	'000	**7 269**	6 244	16	5 388	4 677
ATMs						
• Own		**1 236**	941	31	744	640
• Partnership		**2 469**	2 477	–	2 174	1 914
• Total		**3 705**	3 418	8	2 918	2 554
Capital expenditure	R'm	**704**	414	70	549	473
Sales						
Loans						
Value of loans advanced	R'm	**24 228**	19 417	25	18 214	25 401
Number of loans advanced	'000	**3 684**	2 820	31	3 034	3 760
Average loan amount	R	**6 577**	6 887	(5)	6 003	6 756
Repayments	R'm	**28 689**	23 787	21	21 862	19 159
Gross loans and advances	R'm	**40 891**	36 341	13	33 690	30 658
Loans past due (arrears)	R'm	**2 297**	1 964	17	2 174	1 777
Arrears to gross loans and advances	%	**5.6**	5.4		6.5	5.8
Arrears and arrears rescheduled < 6 months	R'm	**3 839**	2 848	35	2 921	2 402
Arrears and arrears rescheduled < 6 months to gross loans and advances	%	**9.4**	7.8		8.7	7.8
Provision for doubtful debts	R'm	**5 131**	3 857	33	3 637	2 723
Provision for doubtful debts to gross loans and advances	%	**12.5**	10.6		10.8	8.9
Arrears coverage ratio	%	**223**	196		167	153
Arrears and arrears rescheduled < 6 months coverage ratio	%	**134**	135		125	113
Loan revenue	R'm	**12 145**	10 660	14	9 841	7 983
Loan revenue to average gross loans and advances	%	**31.5**	30.4		30.6	32.5
Gross loan impairment expense	R'm	**5 255**	4 616	14	4 410	2 932
Recoveries	R'm	**854**	602	42	434	273
Net loan impairment expense	R'm	**4 401**	4 014	10	3 976	2 659
Net loan impairment expense to loan revenue	%	**36.2**	37.7		40.4	33.3
Net loan impairment expense to average gross loans and advances	%	**11.4**	11.5		12.4	10.8
Deposits						
Wholesale deposits	R'm	**10 154**	11 152	(9)	11 848	11 821
Retail call savings	R'm	**24 152**	19 298	25	14 617	10 335
Retail fixed savings	R'm	**13 634**	10 731	27	8 984	6 844

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What value does Capitec create?

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

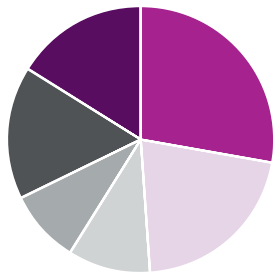
Resources and relationships

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:

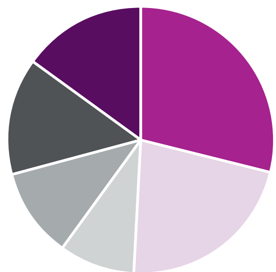
IIRF classification of capitals	Description	Focus area through Capitec's lens	Page
Financial	The pool of funds obtained through financing available for use by Capitec	Key performance indicators Annual financial statements Funding and liquidity risk Capital management	10 112 74 78
Manufactured	Manufactured, physical objects available for the provision of our service	Branch network	21
Intellectual	Capitec-specific, knowledge-based intangibles	Capitec Bank as a top brand Service excellence emphasis and technology supporting this focus Reputation risk management Compliance risk management	21 21,31 82 81
Human	People's competencies, capabilities and experience and their ability to motivate and innovate	Focused leadership Employees	52 84
Social and relationship	The relationships with clients, communities and stakeholders	Stakeholder engagement Competition and market share Suppliers	14 28 - 29 107
Natural	Renewable and non-renewable environmental resources used by Capitec	The environment, including our carbon footprint	109

ECONOMIC VALUE ADDED

2016



2015



	2016	2015
Suppliers	28%	29%
Employees	21%	22%
Shareholders	10%	9%
Wholesale debt investors	9%	11%
Retail savings clients	16%	14%
The public purse	16%	15%

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

2016 Capitec footprint

- 1 million new active clients
- 52 new branches
- 287 new ATM's
- R24 billion loans advanced

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	*Page*
Banking costs	
Application of the principle 'know what you get, know what you pay'	
Simplified transparent pricing	21
Monthly SMS confirming bank costs	
Minimal transaction price increases	22
Reduction of the cost of credit	22, 33
Service delivery	
Management monitoring of service delivery service system	21
Branch managers are custodians of client relationships	22
Recruiting talented employees	85
Training and development	87 – 89
Accessibility	
Distribution expansion and new service channels	22
Enhanced product offer	21
Branches in rural areas	105
Mobile banking units	105
Fraud	
Fraud mitigation strategic strategy	81

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

2016 Capitec footprint

- Headline earnings up 26%
- R1.88 billion interest paid – retail deposits
- R1.01 billion interest paid – wholesale deposits
- 1 055c ordinary dividend per share

Targets

- Maintain ROE
- Retain sound dividend returns
- NSFR of 100% by 2018
- LCR of 100% by 2018

Already achieved from 2013

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	23 – 27
Health of the unsecured lending market	
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Stringent credit risk management and proactive amendments to credit granting criteria	32, 39
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Sound capital management	78
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Competition	
In-depth monitoring of the competitive landscape	28 - 29
Differentiation through unique product, positioning, pricing and service	21 – 22
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	68 - 72 and note 8
Rescheduling	72, 32, 40
Availability of funding for growth	
Conservative management of liquidity risk and focus on funding by management	44, 74, 82

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 stakeholder 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
- Regular interactions with senior management

2016 Capitec footprint

- 11 440 permanent employees
- 38 601 learning interventions
- 1 369 internal promotions

Targets

- Service oriented employees
- Strive to be employer of choice

Material issues and our response	*Page*
Market-related remuneration	
Responsible remuneration practices	90
Remuneration report	90 - 102
Transformation and a pleasant working environment	
Employee retention	86
Leadership engagement	88
Employment equity forum	85
Employee relations management	89
Job security and personal development	
Talent management initiative	88
Learning and development programmes	87 - 89
Bursaries for further education	88
Performance management	89

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
- Corporate social investments
- Interactions with suppliers

2016 Capitec footprint

- Eight CSI initiatives
- Local procurement from B-BBEE suppliers of 94%
- 2.45 CO_2e tonnes emissions per fulltime employee

Targets

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

Material issues and our response	*Page*
Community development and upliftment	
Commitment to social development	105
Provision of employment opportunities and training	105 – 107
Supplier opportunities	
B-BBEE criteria included in supplier evaluation	107
Simplified money management	
Accessibility to everyday banking facilities at affordable prices	21 - 22
Access to credit at affordable prices	
Responsible credit granting policy	68 - 73
Environmental impact	
Formulation and implementation of environmental objectives	109 –110

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
- 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

2016 Capitec footprint
- R1.82 billion paid in direct, indirect and employees tax

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	81
Health and stability of the South African financial system	
Sound capital management	78 - 80
Effective management of material risks	67
Sound liquidity management	74
Transformation	
Compliance with employment equity legislation	85 – 86
Focus on B-BBEE objectives	107 - 108
Sound remuneration practices	93
Health of unsecured credit industry	
Continuous monitoring of levels of indebtedness among consumers	24 - 25
Continuous alignment of credit granting policies with consumer credit health	69 - 70

Economic value added

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

R'000	2016	2015
Direct economic value generated		
Interest income	12 473 038	10 782 229
Loan fee income	1 545 477	1 245 881
Transaction fee income	4 326 103	3 672 711
Dividend income	53	–
Net movement in financial instruments held at fair value through profit or loss	(1 304)	21 271
Other income	101	305
Loss from associates	–	(886)
Net impairment charge on loans and advances to clients	(4 400 637)	(4 014 085)
Total direct economic value generated	13 942 831	11 707 426
Economic value distributed		
To suppliers in payment of operating expenses	3 277 438	2 856 774
To employees	2 373 306	2 095 526
Ordinary dividends	1 115 810	813 838
Preference dividends	16 064	17 510
Interest paid to providers of wholesale funding	1 006 684	1 021 181
Interest paid to savings clients	1 876 982	1 404 521
To providers of funds	4 015 540	3 257 050
Normal tax	1 294 697	1 079 852
Value added tax	477 808	361 005
Unemployment insurance	13 920	11 611
Skills development levies	20 319	15 973
Property rates and taxes	10 375	8 387
To public purse	1 817 119	1 476 828
To the community	10 591	5 111
Total economic value distributed	11 493 994	9 691 289
Economic value retained for expansion and growth		
Retained income	2 096 363	1 732 251
Depreciation and amortisation	403 177	367 947
Deferred tax	(50 703)	(84 061)
Total economic value retained for expansion and growth	2 448 837	2 016 137

Context in which Capitec operates

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

Market and context in which we operate

Our ambition is to help clients better manage their financial lives. Everything we do is focused on providing clients with the ability to make better decisions and better manage their money. This is provided by simplifying all processes and delivering transparency in product, pricing and functionality. We want clients to feel in control and know exactly what they get and what they pay, for the services offered to them. We also want to assist clients to make the best choices that suit them.

An example of this is the structure of Global One, our single solution to money management.

Unique functional solution

Every client gets the entire Global One offer, as per the diagram, for a monthly fee of R5.25. This means that every client can open and operate a transaction account and four savings accounts, gain access to credit, cell phone banking and internet banking for this fee. Free access is available to all the remote access channels, with one fixed fee per transaction applicable when doing payments. Interaccount transfers between own accounts are free.

We define all retail banking within three key needs, namely:

- Save
- Transact
- Credit

THE CAPITEC SOLUTION

This supports the principle of managing money effectively, as most clients either have a need to receive and store surplus money (save), obtain money in times of shortages (credit), or move money (transact). Giving clients the ability to control these needs at their convenience is the essence of banking.

Unique delivery of this solution

We believe that differentiating our functional offer is only half the formula, as we also have differentiated our service support process, to both inform clients better and clearly deliver options for them to choose. The service process therefore provides the ability to compare alternatives within the three key need definitions so that clients can make an informed choice.

Real time paperless processing, side-by-side consulting and simplified choices on product alternatives support the transparent service process and empower clients to structure solutions according to their preference. We believe that we will nurture the ultimate long-term relationships required in this industry, by informing clients how banking should be done, in the best possible way and to their best advantage.

The approach to nurture client relationships is supported by the strategy to provide smaller informal branches with minimal administrative and security requirements. This has a dual effect as it is not only attractive to clients, but also allows us to make processes system-driven with no paperwork. It further enables us to focus on service support and solving client needs, versus the administrative control of the service processes.

Branch managers focus on service quality and efficiency and not only administrative correctness, as this is built into and controlled by the front-end service system. Branch managers are located on the branch floor and remain in touch with both client needs and service logistics. Furthermore, branches are cashless to minimise risk. All of this, in turn, enables us to provide branch service from at least 08:00 to 17:00 weekdays and from 09:00 to 13:00 on Saturdays and Sundays in adequately secure retail areas.

We now have

720

branches that are placed in convenient locations, close to key shopping and commuting nodes.

The combination of a simplified product offer and a simplified service process means we can deliver on client needs at an efficiency level well above the norm. This in turn means we can remain aggressive on our pricing strategy and enables us to be a price leader in the industry. We have not increased fees on remote banking for two years and have increased cashless transaction fees by less than 5% for the past three years.

We have not increased fees on remote banking for two years.

Because our offer is simplified and the administrative requirements are process driven, we recruit consultants on the basis of their ability to interact constructively and support clients. Training is focused on needs analysis and interactive skills and not only administrative knowledge.

We inspire people to help clients and not to just administrate them. We are proud of the fact that so many young people join us who have not held formal jobs before and regard us as an attractive start to a career path. We are inspired by the growth and development of some of these employees who have progressed to senior management roles. We are also inspired by the number of new clients who find our simplified offer attractive and join us each month, from all income levels in society.

What we view as success

We measure our success in the number of clients who join us and place trust in us as their primary bank, into which they deposit their income. We encourage clients to make use of all our products and services and to maintain a healthy positive cash flow on a long-term basis. We strive to give clients adequate insight to choose the best way to bank and the best way to run their financial lives.

We believe this creates the best long-term relationship with clients and ensures a long-term, stable income stream that a successful bank requires.

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

We are humbled by the growing level of acceptance of our brand and our offer in the market and are proud of the fact that 100 000 new clients join us per month on a continuous basis. We now have 7.3 million clients and 3.3 million primary bank clients. This amounts to approximately 20.6% market share of the South African banking market. This growth rate has made us the fastest growing bank in the country over the past three years. We do, however, recognise that we have a neverending responsibility to deliver on our promise of service quality and service efficiency.

The future of banking

Whilst clients want support and control regarding their finances, they also want efficiency and convenience. Clients do not go to bank branches because they want to, but because they need to.

We recognise the importance of remote banking via client-owned devices and have expanded our simplicity, convenience and control offered via cell phone banking, in order to make this access channel even more attractive. We believe we offer the most simplified functionality at competitive prices and will continue to enrich the quality of this offer as it is the future of convenient client access and control.

Branch hours

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

** Secure retail areas*

Operating environment

Global economy

The United States Federal Reserve increased the Fed funds rate by 25bps in December 2015, ending a long period of speculation as to when the first increase will occur. Since then, the rapid rate of increases initially forecast has abated. Chinese growth continues to weaken and the impact of this will be felt worldwide. Already oil prices have dropped considerably. South Africa's traditional trading partners are not expecting rapid growth so there is little external stimulus being provided to spark growth domestically.

South African economy

	2015	2016 forecast	2017 forecast
GDP growth (%)	1.3	0.9	1.7
CPI (%)	4.6	6.8	6.3
Oil ($/barrel)	54	41	48

Source: National Treasury national budget economic overview document

Inflation outlook

As per table above, consumer price inflation is forecasted to remain above the upper end of the target range. However, administered prices such as energy and transport costs as well as food inflation are expected to contribute at a higher rate than the recent past, which affects lower-income clients more directly.

GDP Growth

The weak outlook for economic growth indicates the expectation of an environment that is not conducive to job creation, and the risk of further job losses due to retrenchments and companies closing down remains real. Furthermore, the economic climate in which future jobs can be created and foreign direct investment encouraged remains constrained by specific factors such as the ability to generate sufficient energy to inspire investment.

Base interest rates

Despite weak growth expectations, the Monetary Policy Committee has remained steadfast in targeting inflation, pushing through 100bps in repo rate increases in the past financial year. Rates are forecasted to increase further over the 2017 financial year, although the forecasted rate and volume of these increases vary significantly. It is an uncertain, volatile market.

Currency depreciation

The significant weakening of the currency in December 2015 post the change of finance ministers has increased pricing pressure and this has already impacted food and transport prices. The projected trading ranges remain extremely wide which brings uncertainty to the pricing of imported goods and services and ultimately this will be felt in CPI.

Impact of the economy on our clients

Lending clients are protected from the direct impact of increases in interest rates as their Capitec loans are at fixed rates. Some of them have exposure to external floating rate debt. Changes in transport, energy and food inflation have a greater impact on their ability to repay loans when compared to movements in interest rates. The drought will have an impact on food inflation, most notably maize and the knock-on effect of maize prices on other food. To mitigate this impact, Capitec's credit policy has always included a robust assessment of client affordability before granting loans, as well as an assessment of the client's free cash flow to ensure that a buffer is available.

A logical driver on the future performance of the loan book is unemployment and the lack of job creation. Stats SA indicates that at the end of Quarter 4 2015, the official unemployment rate was 24.5%, an increase of 0.2% from Quarter 4 2014, with the expanded definition at 33.8%. The likelihood for either of these rates to reduce in a significant manner in the next 12 months is remote.

Impact of economic factors on Capitec

The bank is well hedged against movements in interest rates (refer note 29 interest rate risk) due to the policy of fixed rate loans being matched against fixed rate funding and floating rate cash assets against a floating rate call deposit book. Changes in base rates will not have a material impact on the bank's profitability. Uncertainty regarding the future value of the currency will have an impact on the cost of some goods and services that are not sourced locally. The bank has no unhedged currency exposure on debt raised.

A more significant impact on the bank would be the effect of a potential sovereign downgrade. This is expected to be negative for Capitec Bank Limited's credit ratings and may potentially reduce the volume of funding from wholesale markets, in addition to spreads widening. However, the bank is in the fortunate position of having a low reliance on wholesale funding and is well capitalised and liquid.

The South African unsecured credit market

Significant changes in credit markets since the introduction of the NCA

Prior to introduction of the NCA, credit was predominantly made available on a secured basis. This excluded many of the working population in South Africa.

The introduction of the NCA was a watershed moment for credit consumers previously shut out from active participation in the financial credit market. The new dispensation enabled credit providers to grant larger loans over longer periods to these new credit clients. The NCA achieved its goal of ensuring broader access to credit.

The NCA in conjunction with the impact of the 2008 financial crisis resulted in the restructuring of the credit industry. Consumers were using unsecured credit as life improvement finance. Traditional forms of credit advanced reduced significantly in real terms. This is evident in the slow growth in the mortgage markets. The total outstanding mortgage book has only grown by 17.5% 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, also opened the door for the traditional banks to enter the unsecured credit market. The growth in unsecured credit peaked in 2012.

Looking ahead

Recent regulatory developments, including the NCA Affordability Regulations which became effective on 14 September 2015, Regulations on Review of Limitations on Fees and Interest Rates and the proposed Credit Life Insurance Regulations, will lead to a reduction in the market supply of unsecured credit. This coupled with household expense pressures may lead to marginal consumers defaulting. Over the longer term these regulatory developments will result in a more stable unsecured lending market.

Household debt to disposable income increased from 77.7% in the second quarter of 2015 to 78.3% in the third quarter. The cost of servicing household debt as a ratio of disposable income also rose in the third quarter of 2015, consistent with the increase in the prime lending rate in July 2015. The debt-servicing ratio of 9.6% in the third quarter of 2015 is the highest since the third quarter of 2010.

(Source: SARB Quarterly Bulletin December 2015)

Capitec has addressed these expected pressures by adjusting granting strategies and impairment provisions.

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	2012 (R'm)	To 3rd quarter 2013 (R'm)	2013 (R'm)	To 3rd quarter 2014 (R'm)	To 3rd quarter 2015 (R'm)	Trend 2013/2012 (%)	Trend Q3 2014/Q3 2013 (%)	Trend Q3 2015/Q3 2014 (%)
Mortgages	108 874	89 661	124 378	100 914	**107 422**	14	13	**6**
Secured credit	139 292	112 637	153 217	107 547	**113 096**	10	(5)	**5**
Credit facilities	70 220	51 073	69 771	49 576	**51 645**	(1)	(3)	**4**
Unsecured credit	102 796	65 554	87 169	56 376	**55 502**	(15)	(14)	**(2)**
Short-term	6 189	4 436	5 814	3 931	**10 538**	(6)	(11)	**168**
Developmental credit	1 896	5 754	7 430	4 636	**5 574**	292	(19)	**20**
Total credit granted for the year	**429 267**	**329 115**	**447 779**	**322 980**	**343 777**	**4**	**(2)**	**6**
Total rand value of unsecured credit granted by size of agreements								
<=R10k	13 337	8 736	11 408	6 865	**6 259**	(14)	(21)	**(9)**
R10.1K-R15K	8 406	4 685	6 121	3 324	**3 357**	(27)	(29)	**1**
> R15.1K	81 053	52 133	69 640	46 187	**45 886**	(14)	(1)	**(1)**
Total	**102 796**	**65 554**	**87 169**	**56 376**	**55 502**	**(15)**	**(14)**	**(2)**
Total rand value of unsecured credit granted by income category								
<=R10k	42 100	22 301	29 657	17 465	**16 711**	(30)	(22)	**(4)**
R10.1K-R15K	21 079	13 086	17 250	11 164	**10 733**	(18)	(15)	**(4)**
>R15K	39 581	30 167	40 262	27 747	**28 062**	2	(8)	**1**
Total	**102 760**	**65 554**	**87 169**	**56 376**	**55 506**	**(15)**	**(14)**	**(2)**
Current portion of gross debtors book								
Mortgages	721 680	731 747	742 444	759 735	**788 033**	3	4	**4**
Secured credit	259 764	283 697	294 411	310 243	**329 421**	13	9	**6**
Credit facilities	134 847	147 844	153 570	163 817	**176 410**	14	11	**8**
Unsecured credit	120 642	122 373	122 814	118 267	**114 633**	2	(3)	**(3)**
Short-term	816	564	565	546	**2 265**	(31)	(3)	**315**
Developmental credit	18 797	20 557	18 979	22 265	**29 173**	1	8	**31**
Total	**1 256 546**	**1 306 782**	**1 332 783**	**1 374 873**	**1 439 935**	**6**	**5**	**5**

Source: NCR Consumer credit market report third quarter September 2015 and supporting data set

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.

Legislation or body	Function
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 inter- national 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.
FATCA	FATCA is an agreement between the Republic of South Africa and the United States of America that aims to improve international tax compliance; the act includes the exchange of information relating to tax matters through mutual assistance.

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 places an 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 to 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 ratings affects the South African banking sector as a whole.

South Africa's current long-term foreign currency credit ratings and outlook

Rating agency	Rating	Outlook	Date
Fitch	BBB-	Stable	04-Dec-15
Moody's	Baa2	Negative	15-Dec-15
Standard & Poor's	BBB-	Negative	04-Dec-15

Capitec Bank's credit ratings, along with those of other South African banks, were put on negative watch by Standard & Poor's in December 2015. This followed the South African sovereign's credit ratings being placed on negative watch, indicating the effect of sovereign credit ratings on individual issuers. Since credit ratings are one of the measures used by investors to determine the cost and volume of investments made in issuers, a potential downgrade of the sovereign's credit ratings in 2016 to sub-investment grade will result in increased borrowing costs for South African issuers in general.

Capitec Bank discontinued the credit ratings services from Moody's Investor Services on 17 December 2015 as it is only necessary to have one credit rating to issue debt domestically.

Capitec Bank's credit ratings from Standard and Poor's are as follows:

	Long-term	Short-term	Date
Global scale ratings	BB+	B	09-Dec-15
National scale ratings	zaA	zaA-2	09-Dec-15

At 29 February 2016, the long-term global scale ratings carried a negative outlook.

GlobalOne
Money Management

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 June 2015):

20.6%

(December 2014: 18.9%)

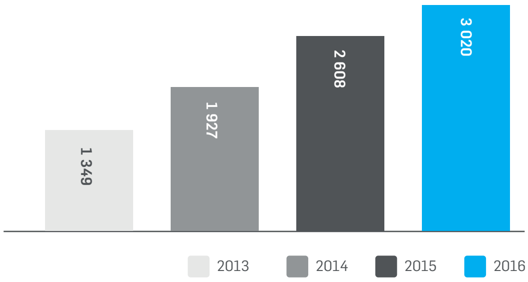
This growth has emanated from all income levels and is a reflection of the acceptance of Capitec Bank as a serious alternative to the traditional banks.

transact
get lower, transparent bank costs

Transacting

Capitec Bank's transaction income stream has grown consistently over recent years and by 16% for the reporting period. The adjacent chart illustrates the growth in transaction income.

NET TRANSACTION FEE INCOME (R'm)

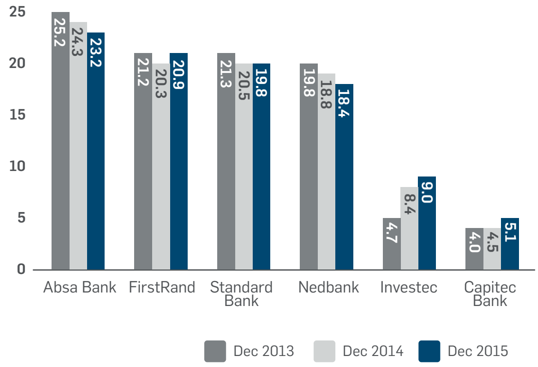


save
earn higher interest on savings

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

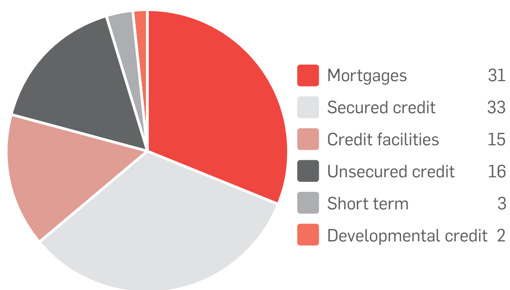
Credit

At the end of December 2015, as per SARB BA900 data, the total domestic loans and advances market book totalled R3 156 billion (gross of credit impairments). Of this, total domestic household retail loans and advances comprised R1 431 billion of the market.

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

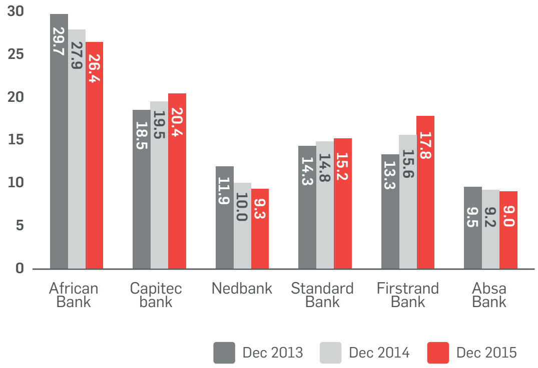
At the end of December 2015, Capitec Bank had the second largest market share in the unsecured credit market book having increased its market share by 0.9% during the year.

RETAIL MARKET LOAN SALES BY PRODUCT (%)



Source: NCR

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



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

Chairman and CEO Report

Dynamic growth with conservative sustainability.

Relentless focus on clients and service

This year has seen the largest growth in our client numbers since we started the bank. By year-end, active clients were up 1 025 000 to 7.3 million and primary bank clients (those clients who make regular deposits – mainly salaries) increased by 582 000 to 3.3 million.

Our brand is accepted by all income profiles and most people like our transparent, non-discriminatory approach to services and fees: all our clients hold gold cards. According to the comprehensive AMPS survey for the period to June 2015, 20.6% of South Africans regard Capitec Bank as their primary bank, up from 18.9% for the period to December 2014.

A recent study by Centre for Competition, Regulation and Economic Development, supported by the National Treasury, demonstrates that Capitec's entry into the banking industry contributed to a more competitive banking environment, resulting in significantly lower bank charges in South Africa. This is estimated to amount to annual client savings across the banking system of R19.9 billion in 2014. The savings were calculated from the impact both on those clients who switched to Capitec Bank and the effect on clients who stayed with their existing bank but benefitted from reduced charges as the banks responded to Capitec's lower charges.

Cellphones lead to easier banking

Cellphone banking has taken off and the Capitec app is a tool clients can use easily and securely to simplify banking. Over 1 million clients have activated the app and can do almost everything they need to with three or four taps on their phones.

Earnings up 26%

Earnings increased by 26% to R3.2 billion from R2.5 billion a year ago. Continued growth from loan and transaction fee income combined with conservative credit granting contributed to the strong year-on-year increase.

Net transaction fee income increased by 16%

Growing client numbers, particularly salaried clients, combined with increased activity per client resulted in a 16% year-on-year increase in net transaction fee income to R3.0 billion. The decrease in card processing fees earned since March 2015 has been absorbed in this figure.

Our net transaction fee income covered 66% (February 2015: 65%) of our operating expenses and contributed 33% (February 2015: 34%) of our net income.

We strive for simplicity and transparency, giving clients greater control over their banking. Our fees are transparent and easy to understand. There was no price increase for cellphone and internet banking in the year and our other price increases were below inflation.

The importance of our employees

Capitec Bank's success depends upon its ability to recruit and retain employees as our unique service experience depends on them. We had 11 440 permanent employees at year-end, an increase of 1 179 employees compared to a year ago. Each one of our new employees is trained at our training centre in Stellenbosch and we invested significantly in leadership training. We promoted 1 369 employees within the organisation during the year.

Operating costs increased by 14%

Operating costs increased by 14% from R4.0 billion in 2015 to R4.6 billion in 2016. The cost-to-income ratio decreased from 35% in 2015 to 34% in 2016. The two biggest reasons for the growth in expenses were the increases in the number of employees and branches. Employment costs grew by R302 million, in line with the 11% year-on-year growth in employees. The cost of premises grew by R68 million as we opened 52 new branches during the year. Security and IT costs also showed significant increases.

Capital expenditure for the year was R704 million (February 2015: R414 million). The 70% year-on-year increase was due to the growing ATM and branch network, as well as the purchase of land and property.

Gross loans and advances increased by 13%

We granted 864 935 more loans in 2016 than in the previous year. Gross loans and advances increased by R4.6 billion to R40.9 billion.

The average term of the outstanding book decreased from 43 months at February 2015 to 40 months at February 2016. Although the average term of loans advanced were shorter and the average loan amount decreased, the value of new loans grew by 25% from R19.4 billion to R24.2 billion in 2016.

We react swiftly to events and changing circumstances that impact on our clients. Continuous detailed measurement of the performance and trends in the various segments of the loan book and economy is performed. For example, management undertook visits to mines during the year to understand the impact of the commodities downturn on our clients.

During the last few months of the 2016 year, macro-economic conditions deteriorated and as a result we made changes to the credit granting model in December 2015.

Arrears as a percentage of gross loans and advances increased to 5.6%

Arrears increased from R2.0 billion in 2015 to R2.3 billion in 2016, an increase of 17%, while arrears to gross loans and advances increased from 5.4% to 5.6%. Arrears performance was on track for most of the year, but increased in the last quarter of 2016.

Rescheduled accounts

We give clients who experience cash flow stress the opportunity to reschedule their payments. This applies to clients who are in arrears and those who are up-to-date with their payments, based on predetermined criteria.

Loans rescheduled during the last six months of the year (which were in arrears at the time of rescheduling), grew by 75% to R1.5 billion (February 2015: R884 million). This is due to the expansion of our higher margin short-term book, and is also an indication of the economic challenges faced by clients.

The increased cash flow stress to which clients are being subjected to, is also reflected in the increase in up-to-date rescheduling, which amounted to R1.8 billion (February 2015: R1.1 billion).

Conservative provisioning

We introduced two additional provisions during the latter half of the year. Firstly, for the probability of an up-to-date client rescheduling and secondly, for the effect of the macro-economic conditions on our clients. These provisions, as well as the provision model changes, contributed to a 33% increase in provision for doubtful debts to R5.1 billion at February 2016.

The total provisions compared to the gross loan book increased to 12.5% at the end of the 2016 financial year (February 2015: 10.6%). The level of provisions to arrears increased from 196% in 2015 to 223% in 2016.

We provide 8% on up-to-date loans, 47% on loans one instalment behind, 76% for two instalments and 89% for three instalments. We provide on average 49% on clients that rescheduled any of their loans whilst in arrears within the last six months although they are up-to-date in terms of the new agreement. For clients who rescheduled any of their loans whilst up-to-date we provide 16%. All these provisions are based on the probability of further default. All outstanding balances of clients who are 90 days in arrears on any loan are fully provided for or written off.

The gross loan impairment expense increased by 14% to R5.3 billion for the year ended February 2016 (February 2015: R4.6 billion). The table below analyses this increase:

R'm	2016	2015	Change (%)	2014
Write-offs	**3 981**	4 395	(9)	3 496
Movement in bad debt provision	**1 274**	221	476	914
Gross loan impairment expense	**5 255**	4 616	14	4 410

Our net loan impairment expense to loan revenue improved from 37.7% in 2015 to 36.2% this year. The net loan impairment expense to average gross loans and advances decreased slightly from 11.5 % in 2015 to 11.4% this year.

The book is performing within our risk appetite. We expect continued pressure on employment and the economy. We are prudent when providing credit, we manage our book meticulously and we make conservative provisions.

Recoveries

Recoveries increased by 42% year-on-year from R602 million in 2015 to R854 million in 2016. The increase resulted from growth in the handed-over book, the implementation of a new strategy with our debt collectors and debt sales.

Robust capital

The return on equity for the year increased to 27% (February 2015: 25%). The total annual dividend increased by 26% from 836 cents per share to 1 055 cents per share, in line with the increase in earnings.

Capitec remains well capitalised and is generating sufficient profit to fund growth in the loan book. At February 2016, the capital adequacy ratio was 34.9%. We remain conservatively leveraged with total assets at 5 times equity.

Retail deposits grew by R7.8 billion

Capitec clients receive a minimum of 5.35% annual interest on balances in their transaction accounts. Retail fixed savings amounted to R13.6 billion at 29 February 2016 (an increase of R2.9 billion from a year ago) and retail call savings grew by R4.9 billion to R24.2 billion. Our retail deposits grew by more than our total advances.

We maintain a healthy reserve of longer dated wholesale deposits to match our assets. Wholesale funding remains an important part of our liquidity structure. On 2 November 2015, we received bids totalling R903 million and subsequently issued a bond of R500 million. Capitec is fully compliant with the Basel 3 liquidity ratios. Our conservative liquidity policies are unchanged.

Regulation

The Department of Trade and Industry (DTI) published new regulations dealing with the assessment of affordability under the National Credit Act on 13 March 2015. The regulations, which guide credit providers away from providing high-risk credit and protect consumers applying for credit at registered providers, came into effect on 13 September 2015.

The DTI published final regulations for interest rate limits and fees for credit agreements which will become effective from 6 May 2016.

They have also invited comment on the draft regulations regarding the capping of costs on credit life and retrenchment insurance. Capitec does not currently charge credit life or retrenchment insurance, but will start to do so from 6 May 2016. We performed a robust assessment of the impact of these regulations, including the charging for credit life and retrenchment insurance based on a client-by-client risk assessment, and determined that there will be a limited impact on Capitec.

We continue to support appropriate regulation enhancing the sustainability of the credit industry and to reduce the cost of credit for consumers if this is done in a manner that is sustainable and achieves a balance between affordability and access to credit. We will support the regulator on these matters.

Contingent liability

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

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

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

Changes in executive management

Christian van Schalkwyk, who was in charge of risk management and company secretary since we started in 2000, retired during November 2015. We would like to thank Christian for the work he did in helping grow the bank and ensuring it has a solid foundation. He is succeeded by Nkosana Mashiya as the risk management executive. Nkosana was previously deputy registrar of banks at the

South African Reserve Bank, and brings a wealth of risk and regulatory knowledge. We welcome him on board. After serving as assistant company secretary for 15 years, Yolandé Mouton replaced Christian as company secretary.

Prospects

The rapid growth in client numbers ensures that we will continue investing heavily in people, branches and ATMs.

We expect difficult economic conditions to persist. We see this as an opportunity to gain more clients as they look for value and better service from their bank.

Capitec Bank is well placed for the regulatory changes on credit agreements. We expect minimal impact on our earnings from these changes.

We will strive to improve both ease of access for clients and service standards. Quality of service is a never ending challenge in banking. With a strong brand, a simple and cost-effective product, a conservative approach to credit and a healthy capital adequacy position, the bank remains focused on the financial needs of South Africans.

Dividend

The directors declared a final gross dividend of 680 cents per ordinary share on 29 March 2016, bringing the total dividends for the year to 1 055 cents per share.

On behalf of the board

Michiel le Roux
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
30 March 2016

people ...
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

CFO Report

Sustainable growth in a challenging economic environment.

Robust financial performance

27% return on equity

Capitec has proven its ability to manage the impact of economic pressures while maintaining conservatism in our unsecured lending book, liquidity and capital. The annual GDP growth of South Africa slowed to 1.3% for 2015, while other challenges faced by the country during the year included power shortages, student fee protests, falling commodity prices, political issues and currency weakness. All of these put constraints on the retail credit market; however, Capitec continued to grow and reported a return on equity of 27%.

26% increase in earnings

Regardless of the economic challenges faced by the South African economy, Capitec remained on target. Headline earnings per share increased by 26% from 2 209 cents to 2 787 cents per share. Earnings and headline earnings attributed to R3.2 billion compared to R2.5 billion in 2015. The total dividend paid of 1 055 cents in 2016 mirrored the 26% growth (2015: 836 cents).

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

	Since listing in 2002 (%)	Last 10 years (%)	Last 5 years (%)	Last 3 years (%)	2015 (%)
Headline earnings	35	39	38	27	26
Headline earnings per share	29	33	30	22	26
Dividend	29	37	29	22	26
Share price	54	31	24	36	123

Loans advanced (sales)

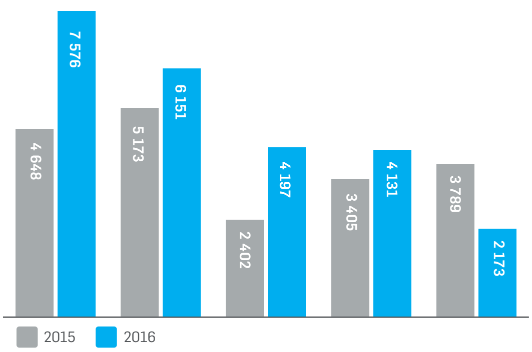
Enhancing our credit granting model

Capitec Bank's credit model is reviewed and adjusted continuously so that the credit offer meets the requirements and trends in the market, while performing within the credit risk appetite. We continued to refine the precision of the credit granting model throughout the year to enable us to achieve loan sales totalling R24.2 billion for the year (2015: R19.4 billion). While the value of loans increased by 25%, the number of loans increased by 31%. During the 2016 financial year the maximum loan offer increased to R250 000 (2015: R200 000). However, we tightened our credit rules (discussed in more detail later in this report), which made it more difficult for clients to qualify for the maximum amount.

In November 2015 the updated granting model included the launch of a credit facility, which replaced the multi loan. We further updated the affordability assessment in the model, resulting in an improved offer to higher quality and higher income clients, through increasing the maximum allowable repayment to income ratios for these clients.

In the highly competitive short-term category of 1 to 12 months, we saw a 63% rise in the value of loans sales, mainly by refining our pricing for risk model, and expanding access to affordable short-term credit. The number of loans in this category increased by 35% to 3.2 million loans. On medium and long-term loans we continued to enhance our risk model, reducing the maximum term available to average risk clients, resulting in strong year-on-year growth in the 37 to 48 month and 49 to 60 month categories of 75% and 21% respectively. The value of loans in the maximum category of 61 to 84 month decreased by 43%. Below is a graph detailing the sales by product:

LOAN SALES BY PRODUCT (R'm)



(Months)	1-12	13-36	37-48	49-60	61-84
2015	4 648	5 173	2 402	3 405	3 789
(%)	23.9	26.6	12.4	17.6	19.5
2016	7 576	6 151	4 197	4 131	2 173
(%)	31.3	25.4	17.3	17.0	9.0

National Credit Regulator (NCR)

Recent regulatory developments, including the NCA Affordability Regulations which became effective on 14 September 2015, Regulations on Review of Limitations on Fees and Interest Rates, and the proposed Credit Life Insurance Regulations, will lead to a reduction in the market supply of unsecured credit. This coupled with household expense pressures may lead to marginal consumers defaulting. Over the longer term these regulatory developments will result in a more stable unsecured lending market. We believe we are well positioned to operate within these guidelines and regulations.

Negative industry growth of 2%

As per NCR statistics, the unsecured lending industry experienced negative growth for the first three calendar quarters of 2015, declining by 2%[(1)] or R0.9 billion compared to the same period in 2014 when credit declined by 14%. The reduced rate of decline during 2015 is due in part to the return of stability to the unsecured credit market after African Bank was placed in curatorship during August 2014.

(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 revenue

14% growth in loan revenue

Loan revenue, which consists of interest, origination fees and monthly administration fees net of insurance expense, grew by 14% to R12.1 billion compared to the 8% growth in 2015. This is predominately due to higher margin short-term loans. The distribution of revenue by product category is shown in the following graph:

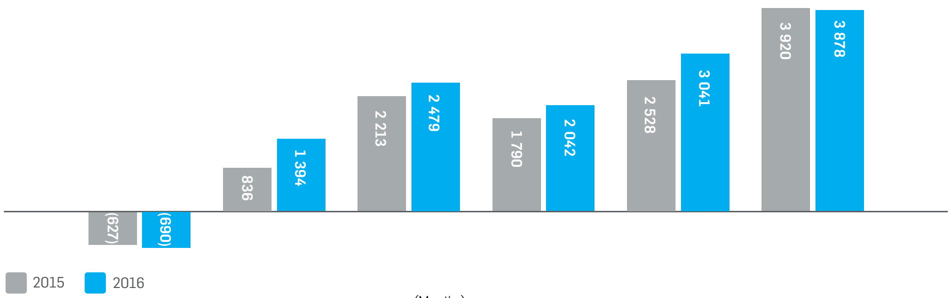
Interest income grew by 16% . In addition to the increased loan sales, the interest income line continued to benefit from the contribution from interest on loans written in previous years (the annuity income effect) and the interest earned on surplus funding and liquidity buffers. Net loan fee income (loan fees net of insurance expenses) increased by 38% to R855 million. The increase in loan fee income of 24% to R1.5 billion was offset by the cost of insuring the book against the death or retrenchment of clients, which increased by 10% to R690 million.

Outstanding loan capital protected from retrenchments and the death of clients

We continue to insure our book against events relating to retrenchment (non-government) and the death of all our clients. The full value of any outstanding loan is insured. Insurance cost increased during the year as the book grew and as the rate on retrenchment insurance became more expensive. Insurance premiums cost Capitec Bank R690 million (2015: R627 million).

This insurance protects Capitec from bad debts, but also benefits our clients. When retrenched, our clients have a safety buffer and in the case of death, Capitec does not claim against their deceased estates. We do not currently charge our clients credit life or retrenchment insurance as this is built into the interest rate we charge our clients, but will start to do so from 6 May 2016 when regulations for interest rate limits and fees for credit agreements become effective.

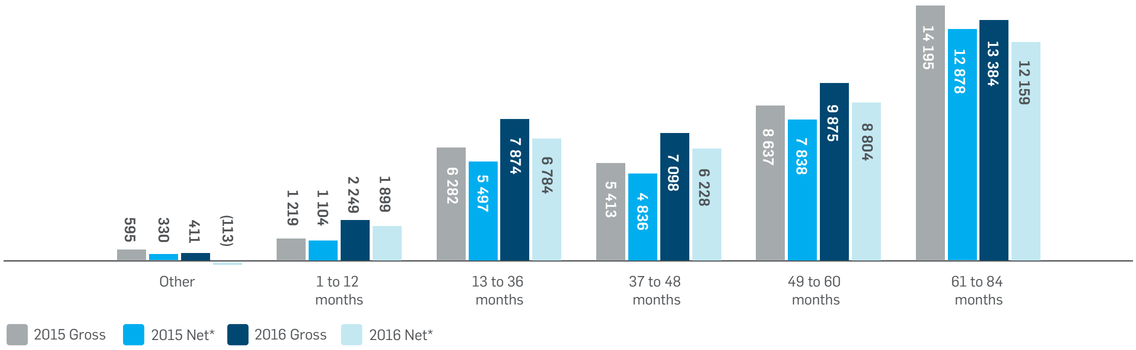
LOAN REVENUE BY PRODUCT (R'm)



(Months)

	Insurance	1-12	13-36	37-48	49-60	61-84
2015	(627)	836	2 213	1 790	2 528	3 920
2016	(690)	1 394	2 479	2 042	3 041	3 878

LOAN BOOK BY PRODUCT (R'm)



			(Months)				
	Other	1-12	13-36	37-48	49-60	61-84	Total
2015 Gross	595	1 219	6 282	5 413	8 637	14 195	36 341
2015 Net	330	1 104	5 497	4 836	7 838	12 878	32 483
2016 Gross	411	2 249	7 874	7 098	9 875	13 384	40 891
2016 Net	(113)	1 899	6 784	6 228	8 804	12 159	35 761

** 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.

Loan book, arrears and provision for doubtful debts

13% growth in loans and advances

The retail customers are showing confidence in our simple, transparent and affordable product range. This is reflected in our gross loan book that grew by R4.6 billion to R40.9 billion. This was an increase of 13% compared to the increase of 8% in 2015.

Tightening of credit granting criteria

During the year we implemented a number of adjustments to our granting parameters, the most significant being in April and November 2015.

The adjustments were intended to widen access to affordable short-term credit, reduce the maximum term available to average risk clients, increase offers to high quality clients, and launch the new credit facility which replaced the multi loan.

At the end of February 2016 the weighted average outstanding term of the loan book was 40 months (2015: 43 months). The average loan size granted decreased from R6 887 to R6 577. The total number of loans granted during the year increased from 2.8 million to 3.7 million. More 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 94% compared to 95% at February 2015. The 61 to 84 month loan book accounts for 33% (2015: 39%) of the gross loan book.

		Aug 2014	Feb 2015	Aug 2015	Feb 2016
Gross loans and advances	R'm	35 086	36 341	37 898	**40 891**
Loans past due (arrears)	R'm	1 935	1 964	1 781	**2 297**
Arrears to gross loans and advances	%	5.5	5.4	4.7	**5.6**
Provision for doubtful debts	R'm	3 763	3 857	4 249	**5 131**
Provision for doubtful debts to gross loans and advances	%	10.7	10.6	11.2	**12.5**
Arrears coverage ratio(1)	%	194	196	239	**223**
Arrears and arrears rescheduled in the last six months, now current	R'm	2 680	2 848	2 948	**3 839**
Arrears and arrears rescheduled within the last six months, now current to gross loans and advances	%	7.6	7.8	7.8	**9.4**
Arrears and arrears rescheduled within the last six months, now current coverage ratio	%	140	135	144	**134**

(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

As a practical collection strategy, rescheduling is still accepted as an effective arrears preventer. Over the past few years we have implemented several rescheduling strategies affecting arrears and continue to closely monitor rescheduled accounts.

Amending a contract does not necessarily remove the risk and hence a higher provision is held on current rescheduled loans than the rest of the current book. During the year our provisioning on the higher risk class of arrears, which were rescheduled in the past six months increased, from 42% in 2015 to 49% at the end of 2016.

The increase in the arrears to gross loans and advances percentage, can partially be attributed to the focussed increase in higher margin/higher arrears short-term loans. This also partially lead to increased arrears rescheduling.

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.

17% increase in arrears

Arrears increased from R2.0 billion at the end of February 2015 to R2.3 billion, an increase of 17%. Arrears as a percentage of gross loans and advances increased slightly from 5.4% at the end of February 2015 to 5.6%. Arrears performed better than target up to November 2015. However, there was a deterioration thereafter which was more pronounced than the trends over the same period in previous years. This can be attributed to the challenging economic factors that put constraints on customers. We addressed this by adjusting our granting strategies and increasing our impairment provisions.

R'm	2016	(%)	2015	(%)
Gross	**35 234**		32 363	
Impairment	**(2 697)**	8	(2 128)	7
Current	**32 537**		30 235	
Gross	**1 818**		1 130	
Impairment	**(288)**	16	(206)	18
Current – rescheduled from current not rehabilitated (1)	**1 530**		924	
Gross	**1 542**		884	
Impairment	**(758)**	49	(367)	42
Current – rescheduled from arrears not rehabilitated (2)	**784**		517	
Gross	**2 297**		1 964	
Impairment	**(1 388)**	60	(1 156)	59
Arrears	**909**		808	
	35 760		32 484	
Total gross	**40 891**		36 341	
Total impairment	**(5 131)**		(3 857)	
	35 760		32 484	

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

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

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 of the client's outstanding balances on all loans are written off.

Increase in impairment provisions

With the fluctuations in the macro-economic environment we continued with our conservative provisioning approach. The increase in our provision is driven by three factors. Firstly, our statistical model provision increased by 15%, which was more than the 13% increase in the loan book. The second is that we have maintained our prudent approach of supplementing the model provision with the probability that a non-reschedule client will reschedule and thirdly we further analysed economic expectations and indicators and how this will affect our clients. These two supplements combined increased our provision by R372 million. The impairment provision consequently increased by 33% to R5.1 billion and represents 12.5% of gross loans and advances compared to 10.6% at the end of February 2015.

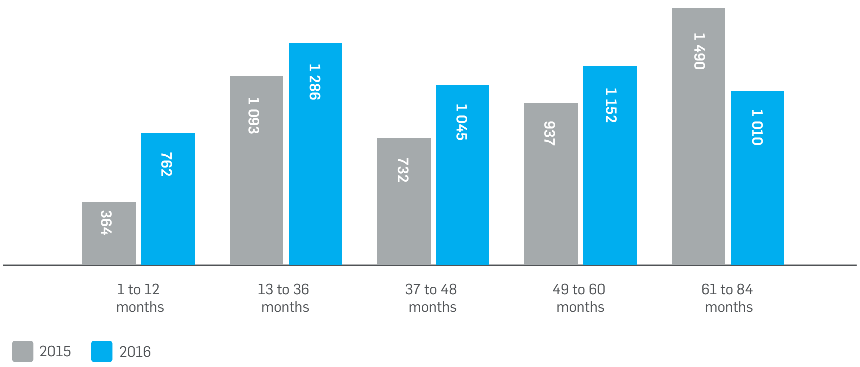
Loan impairment expense

The net loan impairment expense was R4.4 billion (2015: R4.0 billion) and is 11.4% of average gross loans and advances. The impairment charge comprises bad debts written off, the movement in provisions for bad debts (impairment allowance) and bad debts recovered. The drop in bad debts written off (excluding provision movements and recoveries) to R4.0 billion (2015: R4.4 billion) was mostly due to rescheduling. The provision charge was R1.3 billion compared to the R220 million in 2015. We continue to improve our collection environment, hence the increase in the bad debt recovered of 42% from 2015.

R'm	2016	2015
Bad debts	**3 981**	4 396
Movement in impairment allowance	**1 274**	220
Gross loan impairment expense	**5 255**	4 616
Bad debts recovered	**(854)**	(602)
Net impairment charge	**4 401**	4 014

The loan impairment expense is shown per product category below, and approximately reflects the sales growth in these product categories.

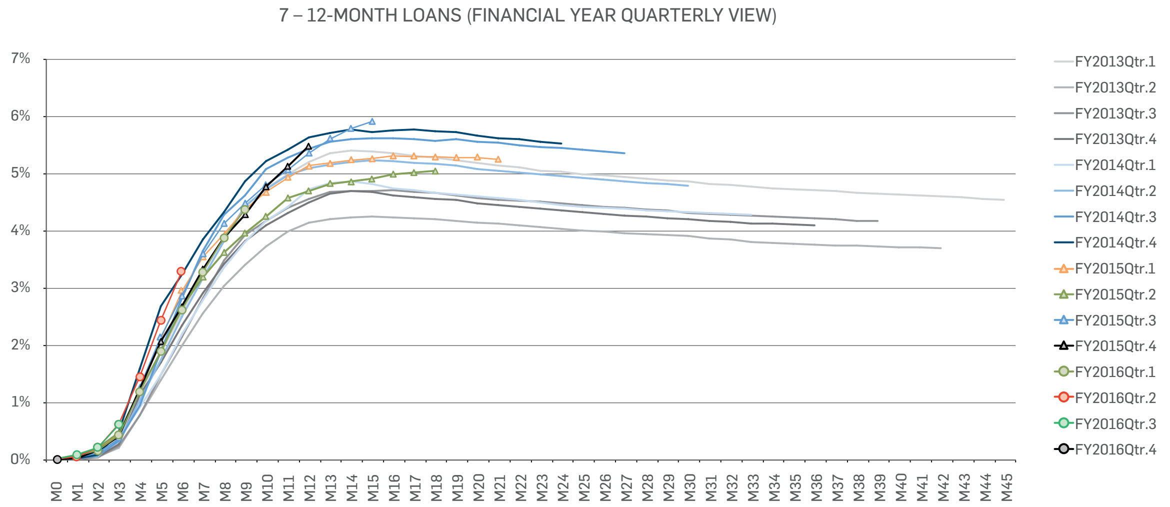
GROSS LOAN IMPAIRMENT EXPENSE (BEFORE RECOVERIES) (R'm)

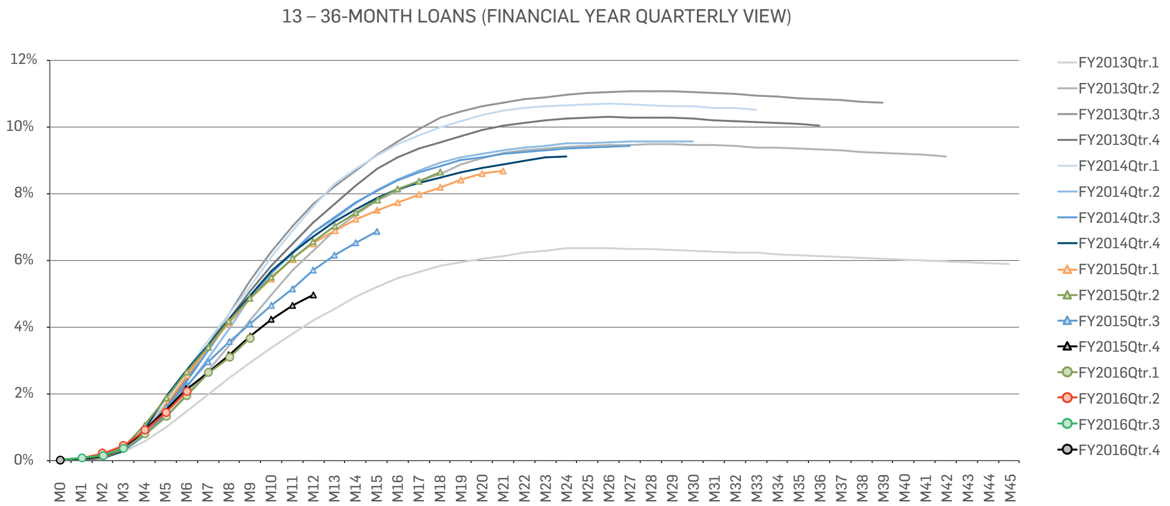


	(Months)					
	1-12	13-36	37-48	49-60	61-84	Total
2015	364	1 093	732	937	1 490	4 616
2016	762	1 286	1 045	1 152	1 010	5 255

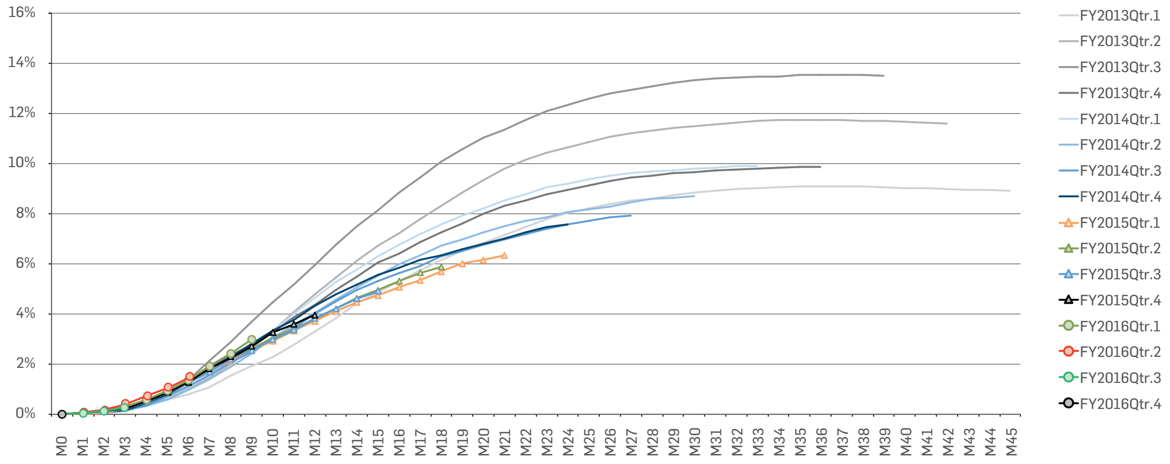
Vintage graphs

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

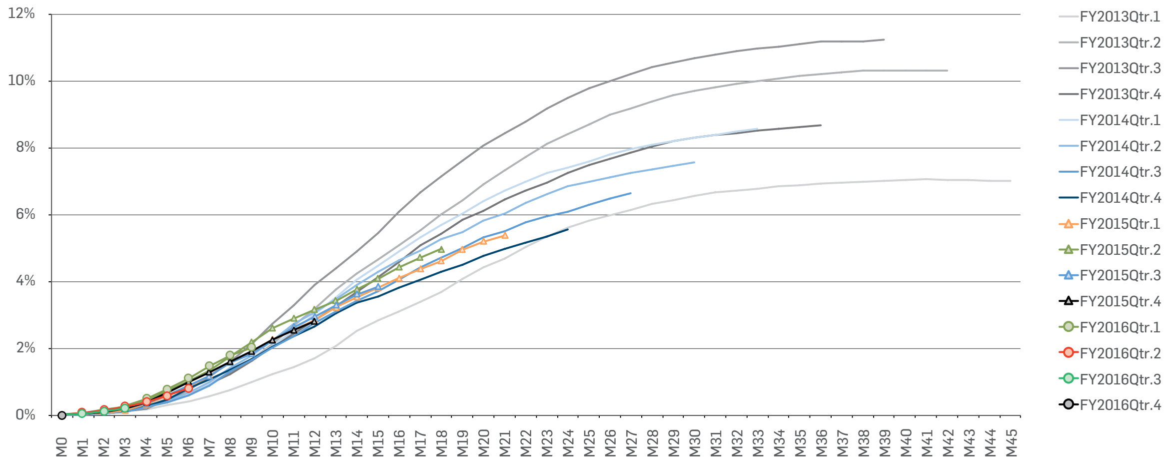




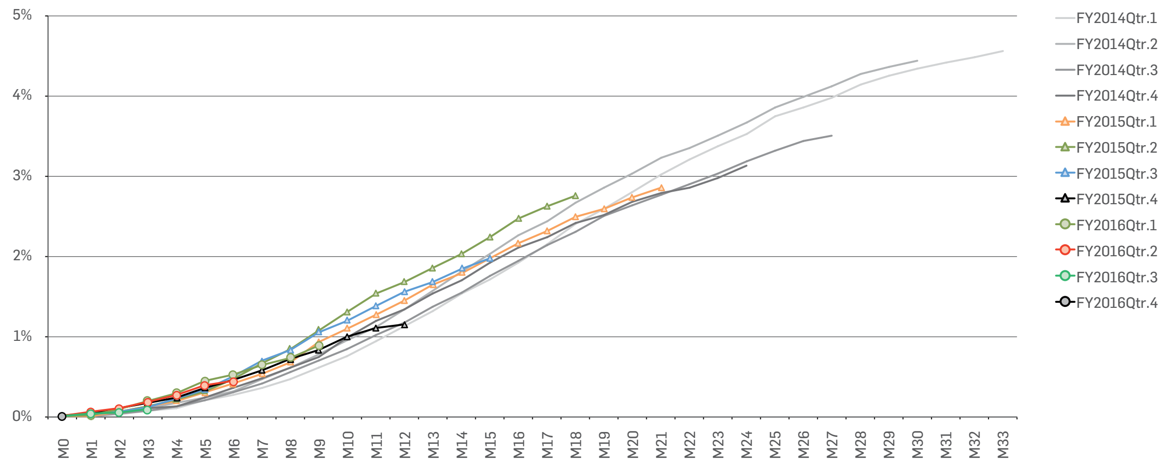
37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



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



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



Transacting

Net transaction fee income of R3.0 billion

Net transaction fee income grew by 16% to R3.0 billion compared to R2.6 billion in the 2015 financial year despite the impact of the reduction in card processing fees that became effective on 17 March 2015. The target for net transaction fee income as a percentage of banking expenses was 55% for 2016 and the actual percentage for 2016 was 66% (2015: 65%). Net transaction fee income amounted to 33% of net banking income after impairment charges, down from 34% for the 2015 financial year.

Growth was driven by a continued increase in clients and the expansion of Capitec's distribution network and access to digital channels. Our clients increased by 1.1 million from 6.2 million in 2015 to 7.3 million for the year. The branch network was expanded by opening new branches and increasing the capacity of existing branches . Gross transaction fee income amounted to R4.3 billion (2015: R3.7 billion) and increased by 16% (2015: 32%) while transaction fee expenses, which consist of interchange charges from other banks and service providers, grew by 23% (2015: 24%) to R1.3 billion (2015: R1.1 billion).

A total of 7.3 million active clients access Capitec's money management solutions through the Capitec network, which grew to 720 branches (2015: 668) countrywide; a total of 3 705 own and partnership ATMs (2015: 3 418); 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 4.2 million (2015: 3.4 million).

Funding

Debt-to-equity ratio of 3.6:1

The debt-to-equity ratio remained fairly consistent at 3.6:1 slightly down from 3.7:1 in 2015. Total deposit funding increased by R6.8 billion (2015: R5.8 billion) to R47.9 billion. Retail deposits increased 26% or R7.8 billion to R37.8 billion. Wholesale funding declined by a net R1.0 billion.

Retail call deposits grew strongly

Retail call savings grew by 25% from R19.3 billion to R24.2 billion. Continued brand awareness among higher net worth individuals has broadened the access to retail deposits.

Retail fixed savings now 57% of term funding

Retail fixed term savings grew to R13.6 billion, a growth of 27%. The contribution to the fixed-term funding mix is now 57% (2015: 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 2016 (2015: 17 months).

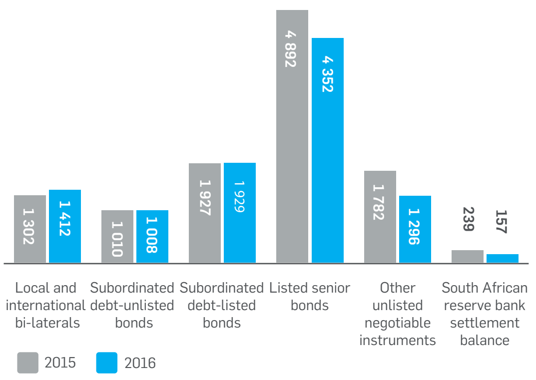
Wholesale funding

The value of wholesale deposits declined from R11.2 billion in 2015 to R10.2 billion as instruments matured and were only partially refinanced. The amount of wholesale funding sourced was moderate due to strong profit and retail fixed deposit growth against muted loan book growth. Bond auctions were well subscribed with broad support from a number of investors. Capitec maintained its conservative liquidity policy, retaining long-term funding to match against longer term assets. Retail call deposits are not used to finance long-term loans. The average term of wholesale funding at year-end was 26 months (2015: 27 months).

Interest rate exposure on wholesale funding hedged

At February 2016, the bank had R1 567 billion unhedged wholesale floating rate funding. The interest rate risk at bank level remains low with a 2% shock to base rates resulting in a R18.3 million post taxation movement in profit (2015: R3.9 million).

WHOLESALE FUNDING BY NATURE (R'm)



40% of balance sheet assets invested in cash and highly liquid instruments

Surplus funding is invested in liquid and high-quality, interest-bearing instruments. These cash assets are funded primarily by retail call deposits and provide a positive return. A total of 40% of the balance sheet is invested in these assets (2015: 37%) which comprise operational cash items (cash in ATMs and in drop safes), and an investment portfolio of bank call and fixed deposits, investments in national treasury bills and SARB debentures (that contribute to the management of prudential requirements) as well as money market unit trusts where the underlying assets are only high-quality banks paper.

The weighted average remaining maturity of the cash portfolio at 29 February 2016 was 91 days (28 February 2015: 78 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 which assists in the management of interest rate risk.

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.

Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that all 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 1 040% (2015: 1 210%). The decrease is due to increased deemed outflows as a result of large growth in retail savings balances. Compliance with a NSFR of 100% is required from 2018. The group NSFR was 145% (2015: 138%). The increase is due to the strong retail deposit growth, which has a high contribution percentage to the stable funding part of the ratio.

Capital

Capital is strong

Capitec remains well capitalised with a capital adequacy ratio of 34.9% (2015: 35.7%). The appropriation of retained earnings is adequately funding the growth in the retail lending book. The growth in the retail loan book decreased the capital adequacy ratio by 2.5% and retained earnings (2016 profit less dividends paid and reserved for) increased the capital adequacy ratio by 5.2%. The investment made in cash and short-term investments (which offer better yields for surplus cash) decreased the capital adequacy ratio by 1.9%.

A total of R33 million of non-qualifying perpetual preference shares were redeemed during the year. Lack of clarity in the market regarding the most appropriate terms and conditions for issuing new Basel 3 compliant preference share and subordinated debt instruments remains. Therefore, we maintain a conservative capital position as non-qualifying Basel 3 preference share and subordinated debt instruments continue to be phased out. The core equity ratio is 30.1% (2015: 29.4%).

The capital conservation buffer came into effect on 1 January 2016, and will be phased in until 2019 where it will be 2.5%.

Credit rating

The credit ratings services supplied by Moody's Investor Services were terminated in December 2015. Currently, Capitec Bank Limited is only rated by Standard and Poor's (S&P) and carries the following ratings:

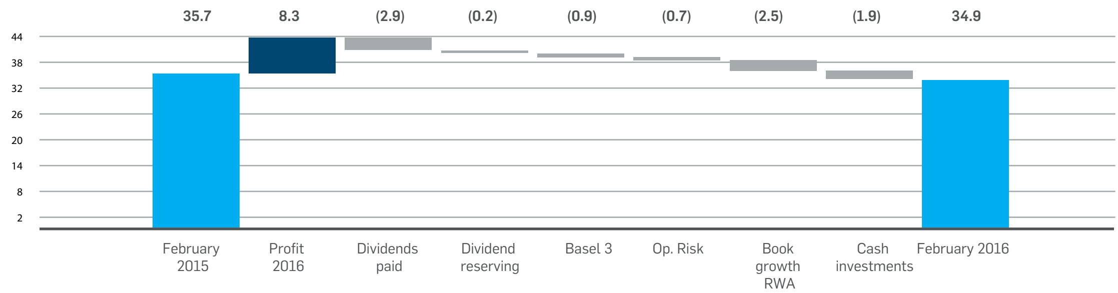
Global scale ratings	- "BB+" long-term rating
	- "B" short-term rating
National ratings	- "A" long-term rating
	- "A-2" short-term rating

The global scale long-term ratings have a negative outlook. This outlook was changed from stable in December 2015 due to the sovereign's outlook being downgraded. The South African sovereign credit ratings are scheduled to be updated in June 2016 and the risk remains real that a downgrade may occur. This will place pressure on Capitec's ratings, along with other financial institutions which could impact the volume and cost of funds to be sourced in the market.

The growth in branches has led to an increase in related premises expenses, depreciation, consumables and staff costs. Our total number of employees increased from 10 261 for 2015 to 11 440 for 2016. Basic employee salary costs increased by R302 million and variable performance-based incentive costs decreased by R17 million. The total reduction in incentive costs comprised R31 million increase for bonuses, R10 million increase for equity-settled method share options and R58 million decrease for share appreciation rights. An additional R10 million was spent on training costs this year as more staff went through our induction programmes to meet the service demand in branches.

Based on the average number of income-generating outlets for each year, the operating expense per outlet for the 2016 financial year amounted to R6.4 million compared to R6.2 million for the 2015 financial year.

ANNUAL CHANGE IN CAR (%)



Cost structure

The cost-to-income ratio decreased slightly from 35% for 2015 to 34% in 2016. Income from banking operations increased by 16%, while operating expenses increased by 14%. The growth in income from banking operations is dealt with in the sections on loan revenue and transacting. Total banking operating expenses increased to R4.6 billion from R4.0 billion.

We have made banking more accessible to communities by opening 52 additional branches, bringing the Capitec branch network to 720.

Capital expenditure increased 70% from R414 million to R704 million due to growing ATM and branch network and purchase of land and property.

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 were impacted in 2016, but the growth in business volume 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.
DTI and NCR	The DTI invited comment on the draft regulations regarding the capping of costs 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
DTI and NCR	Review of limitations on fees and interest rates	The DTI published the final regulations for the limitation of fees and interest rates which will become effective from 6 May 2016.
NCR	Emolument Attachment Orders (EAOs)	The use of EAOs is being tested in the Constitutional Court. We monitor developments and will factor any developments into our plans.
DTI and NCR	National Credit regulations including affordability assessment regulations	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, but were suspended until 13 September 2015. We support proper regulation enhancing sustainability of the credit industry.
DTI and NCR	National Credit amendment act	The National Credit amendment act, commenced on 13 March 2015. It deals with issues such as the automatic removal of adverse consumer credit information, required procedures before debt enforcement and the registration and deregistration of alternative dispute resolution agents.

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

Strategy and how 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 creation of sustainable value 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.

Aiming to be the bank for at least

25%

of all primary banking clients by 2020

Objective	Strategy	Outcome
Strategic	Provide unique service	Global One Product - one product to meet all needs (page 21)
	Enhance the product offer	Credit card facility in the pipeline (page 50)
	Grow client numbers	1 025 000 new active clients (page 11)
	Grow transaction income	Net transaction fee income grew by 16% to R3.0 billion (2015: R2.6 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 27% (page 10)
	Focus on cost efficiency and a lower cost-to-income ratio	Cost-to-income ratio decreased to 34% and operating expenses grew by 14% (page 10)
	Grow the loan book responsibly within the constraints of the unsecured lending environment and market competition	Gross loan book increased to R41 billion (page 11)
	Maintain sound credit policies to limit bad debts	Changes to credit granting criteria to adapt to changes in the market (69 - 70)
Operational	Increase distribution network	52 new branches opened during the year (page 9)
	Improve business continuity and disaster recovery plans	Manage operational risk (page 81)
	Grow employee numbers	98 average net appointments per month (page 9)
	Train and develop employees	R53.5 million spent on training (page 87)
Social	Develop communities	Corporate social investment (page 106)
	Build a reputation as an employer of choice	Talent acquisition (page 88)
Environmental	Operate a business model that has a low environmental impact	Limited environmental impact with low risk (page 109 - 110)

Over the short to medium-term (1 to 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.	Greater access to our banking solutions.
	Increase the free-standing ATM and cash recycler network.	Grow transaction income.
	Increase point-of-sale devices at merchants.	Maintain cost-efficiencies.
	Increase the use of internet and mobile banking.	Increase access to retail funding.
	Increase direct selling.	
Grow client numbers	Increase accessibility through a combination of unique positioning, product and compelling service experience.	The preferred retail bank for ALL South Africans.
	Offer a unique personal service experience that is personal.	
	Launch a credit card.	
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.	Become the dominant retail bank in South Africa. Increased earnings and shareholder value.
	Create trust through simplified and transparent banking.	
Lower cost of credit to the client	Reduce internal cost of granting credit through enhanced and innovative technology.	Optimal affordability for clients.
	Grow client numbers to the critical mass that will enhance cost-efficiency.	Promotion of responsible lending and a healthy credit market.
	Maintain low-cost banking model to enhance cost-efficiency.	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 a 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.

our core business pillars

- simplicity
- affordability
- accessibility
- personal service

Our 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 (66)
BCom LLB, DComm (Hon)
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 (39)
BCom (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, Pioneer Foods 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 (62)
BCom (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 (53)
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 transit project in the capacity of interim chief executive officer until February 2011. She serves on the board of Sentech SOC and is a director of Rorisang Basadi Investments, Ash Brook Investments 15 and Coral Lagoon Investments 194.

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

John David McKenzie (69)
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, Sappi and Zululand Distilling 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 (57)
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 Ansys, Pioneer Foods, Tongaat Hullett and WBHO Construction.

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

Chris Adriaan Otto (66)
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 Capevin Holdings, Distell Group, Kaap Agri and Zeder Investments,.

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

Gerrit Pretorius (67)
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 ARB Holdings, Digicore Holdings and Pioneer Foods.

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

Jean Pierre Verster (35)
BCompt(Hons), CA(SA), CFA, CAIA
Chairman of the audit committee

Jean Pierre is currently an investment analyst at 36One. Previously, he was an analyst and portfolio manager at Melville Douglas Investment Management. Prior to entering the investment management industry, he fulfilled various roles within 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 service environment and in 2006 he gained experience as an internal auditor in the retail banking environment.

Jean Pierre was appointed to Capitec and Capitec Bank's boards on 23 March 2015.

Executive directors

Gerhardus Metselaar Fourie (52)
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 (54)
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 (47)
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 (59)
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 to 1998) and group production/operations director (1993 to 1996) of Stellenbosch Farmers' Winery.

Hendrik Albertus Jacobus Lourens (50)
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 (49)
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 (48)
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 were 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 with Arthur Andersen.

Willem de Bruyn (45)
BSc (Hons), (Computer Science)
Executive: information technology

Wim joined Capitec Bank on 1 November 2014. 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 the 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 (61)
BComm LLB, CA(SA)
Executive: risk management and company secretary

Christian served as head of risk management and company secretary since 2000. He retired on 30 November 2015. He was succeeded by Nkosana Mashiya as head of risk management and Yolandé Mouton as company secretary.

Nkosana Samuel Mashiya (40)
MComm (Economics)
Executive: risk management

Nkosana joined Capitec Bank on 1 November 2015. He was the deputy registrar of banks at the South African Reserve Bank since 2011. He was also responsible for the policy framework to guide the prudential supervision and regulation of the financial conglomerates in South Africa since 2014 and was acting managing director of the Cooperative Bank Development Agency since 2011. Previously he worked at National Treasury as chief director: international finance (2010 to 2011), chief director: financial sector development (2006 to 2010) and director: banking development (2002 to 2006). Nkosana started his career as a lecturer at the University of Johannesburg (1998 to 2001). He later moved to the University of Natal as lecturer (2001 to 2002) before joining National Treasury.

Leonardus Venter (54)
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 to 1999), manager of human resources and support at Telkom SA (1993 to 1997) and area personnel manager at Iscor (1986 to 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 Neptal Khoza, head: corporate affairs and Francois Viviers, brand manager during the 2016 financial year.

The development members for the 2017 financial year are:
Azhar Patel, business representative and Iain Orpen, head: forensic services.

Corporate values

Ethics

Capitec 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 and 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 to 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.

Integrated risk framework

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

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

The primary objectives of the framework are to:
- protect against possible losses;
- integrate risk management at all levels of decisionmaking;
- anticipate and mitigate risk events before they become a reality;
- ensure earnings stability; and
- optimise the use of capital.

Management Operating System (MOS)

The MOS is an integrated review system used to manage strategy, operations and risk. The MOS ensures continuing key performance areas and key results indicators align to the group's objectives, business plans and budgets.

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

Governance

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

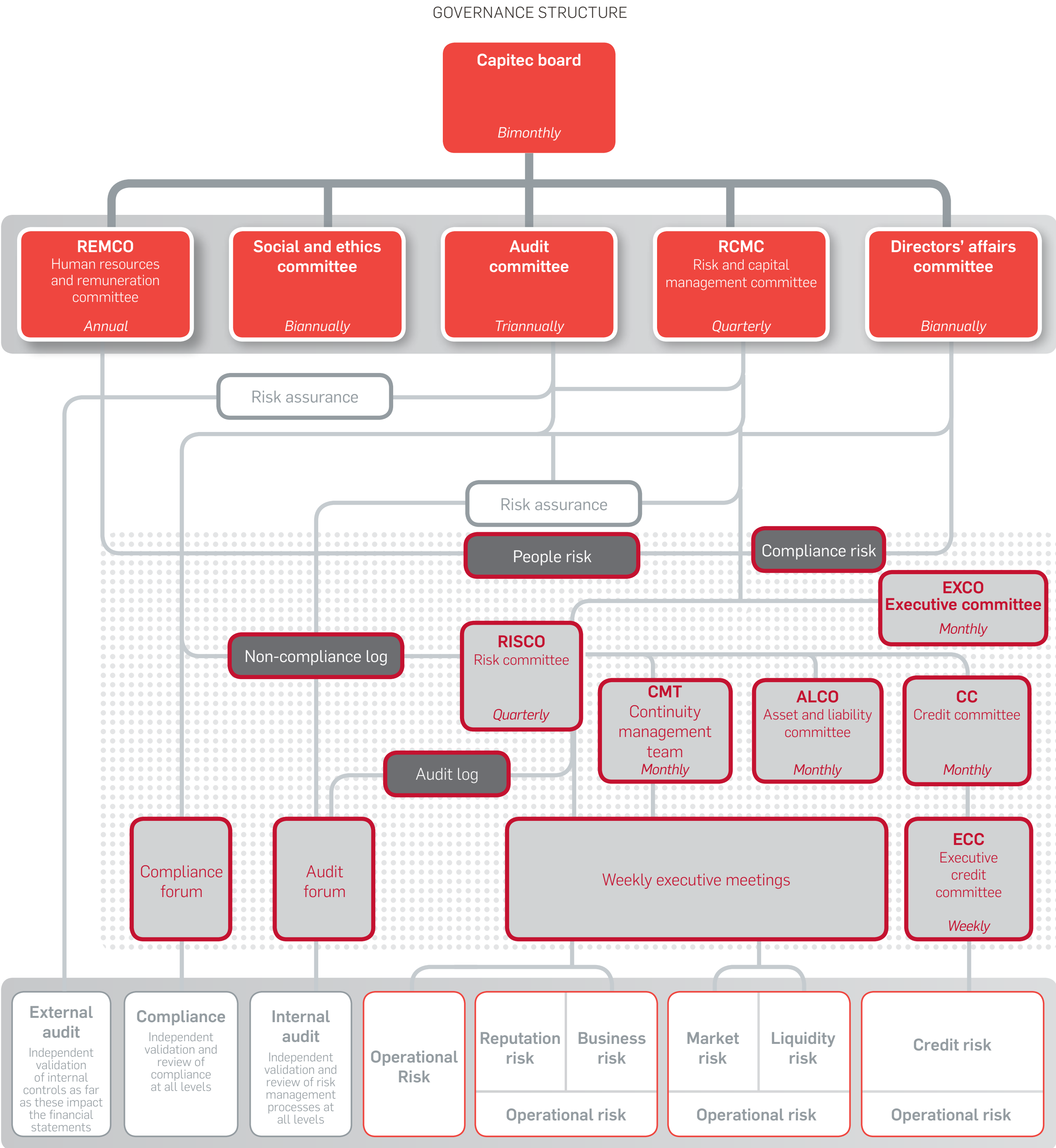
All the key principles set by King III have been applied during the reporting period, with minor exceptions.

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

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

Governance structure

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



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 Capitec's 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. A lead independent director has been appointed.

Assessment of independence

The independence of independent non-executive directors 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 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 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 have an open invitation to attend training presented by the Gordon Institute of Business Science and ad hoc training is presented in-house from time to time.

Performance assessment

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

The board was comfortable with the results of the assessment for the 2016 financial year and is satisfied that it continues to function well.

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 as least 50% must be non-executive.

Committees

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

Board committee

Committee	Purpose	Composition	Quorum	Frequency and reporting
Audit committee	Responsible for financial disclosure and controls affecting this disclosure Custodians of corporate reporting, including the Integrated Annual Report – oversees the extent, format, frequency, content, quality, reliability, completeness and integrity of the Integrated Annual Report Annually expresses opinion on the expertise, resources and experience of the CFO as well as the internal audit environment Considers the continued independence of the current auditor Recommends the appointment of external auditors, determines their fees and oversees the results of the external audit process Sets principles for the use of the external auditors for non-audit services	**Independent non-executive directors*** JP Verster (chairman) JD McKenzie NS Mjoli-Mncube **Non-executive director** PJ Mouton **Independent attendee** DG Malan (external audit partner – PricewaterhouseCoopers Inc.) **Management attendees** J-HC de Beer (head compliance officer) AP du Plessis (CFO) GM Fourie (CEO) JJ Gourrah (head: internal audit) NS Mashiya (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 Ms du P le Roux (chairman)	At least 50% of members	Meets twice a year
Executive committee (EXCO)	Operational decision-making Implementation of board-approved strategic decisions Ongoing approvals of administrative nature	GM Fourie AP du Plessis JE Carstens (executive: credit) W de Bruyn (executive: information technology) CG Fischer (executive: marketing and corporate affairs) HAJ Lourens (executive: operations) NS Mashiya NST Motjuwadi (executive: human resources) A Olivier (executive: card services and business development) L Venter (executive: business support centre) Two annually elected development members	At least three of the following: CEO, CFO, exec: risk management and exec: operations or replacement members as appointed by the EXCO	Meets twice a week with an extended meeting once a month

** 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
Large exposures committee	Approval of credit exposures in excess of 10% of bank capital	RCMC (see below) **Members of management** JE Carstens GM Fourie NS Mashiya	Majority of members	Meets as required
Risk and capital management committee (RCMC)	Assists the board in reviewing the risk management systems, processes and significant risks impacting the bank's capital and management thereof	**Independent non-executive directors** JD McKenzie (chairman) JP Verster CA Otto **Non-executive directors** PJ Mouton R Stassen **Executive director** AP du Plessis **Management attendees** JE Carstens J-HC de Beer JL Delport (risk officer) GM Fourie JJ Gourrah NS Mashiya	At least 50%, but not less than two members	Meets quarterly
Human resources and remuneration committee (REMCO)	Determines directors' and senior executives' remuneration, levels of remuneration of all employees and adjustment thereof Additional remuneration such as bonuses, incentives and share option incentives	**Independent non-executive directors** CA Otto (chairman) 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 wellbeing of society Facilitates the sustainable growth of the Capitec group Considers matters relating to socio-economic development, equity and empowerment, good corporate citizenship and the environment	**Non-executive director** PJ Mouton (chairman) **Independent non-executive director** RJ Huntley **Management member** NS Mashiya **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	Board	Audit	REMCO	RCMC	Social and ethics
Number of meetings	**6**	**3**	**2**	**5**	**2**
MS du P le Roux	6	3[1]	2	–	–
AP du Plessis	5	3[1]	–	4	–
GM Fourie	6	3[1]	2[1]	5[1]	–
RJ Huntley	5	3[1]	–	–	2
JD McKenzie	6	3	–	5	–
NS Mjoli-Mncube	6	3	–	–	–
PJ Mouton	6	3	–	5	2
CA Otto	6	3[1]	2	5	–
G Pretorius	6	3[1]	2	–	–
R Stassen	6	3[1]	2[1]	5	–
JP Verster	6	3	–	4	–

(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 three independent trustees.
- The Capitec Bank Group Employee Empowerment Trust has three trustees of whom two are independent and one is an employee (elected by employees).

Company secretary

Yolandé Mouton (M.Sc) was appointed as company secretary effective 1 December 2015. Yolandé has served as assistant company secretary of the Capitec group since its establishment in 2001. The company secretary acts as a conduit between the board and the organisation. The company secretary is responsible for board administration, liaison with the Companies and Intellectual Property Commission and JSE Limited. Board members also have access to legal and other expertise when required and at the cost of the company, through the company secretary.

The directors' affairs committee has reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and has noted that the company secretary performed all formalities and substantive duties timeously and in an appropriate manner. The committee confirmed its satisfaction in all instances. As the company secretary is not a director of any company in the Capitec group and has to date maintained a professional relationship with board members giving direction on good governance, as and when required, the committee stated that it is satisfied that an arm's length relationship with the board is being maintained.

Conflict of interest and dealing in securities

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

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

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

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

Independent assurance

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

External audit

PricewaterhouseCoopers Inc., an international 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 24 to the annual financial statements.

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

Internal audit

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

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

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

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

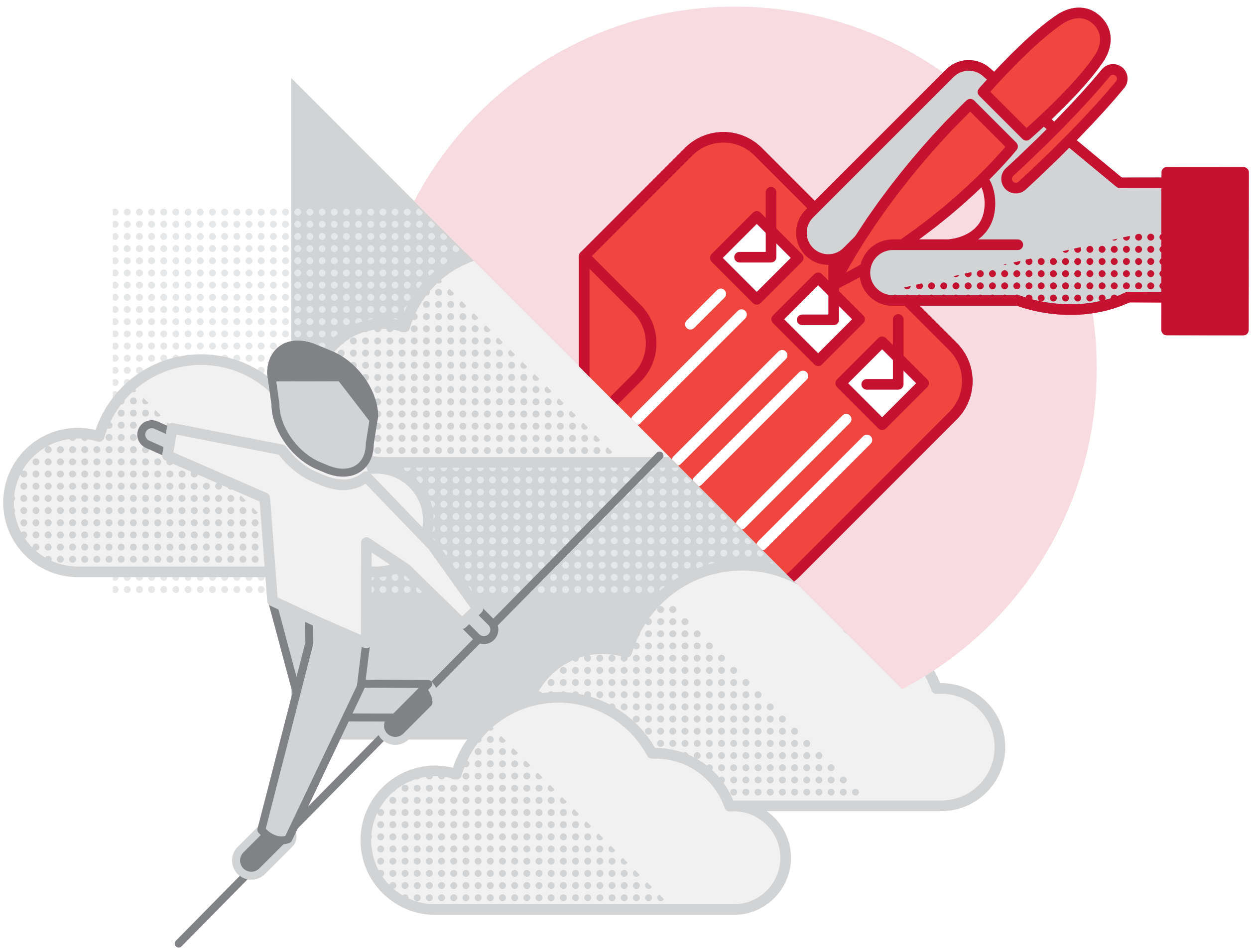
Internal audit is risk-based and the internal auditors submit an annual assessment to the audit committee on the system of internal controls. Significant emphasis is placed on the effective implementation and efficiency of systems. The operations environment is closely monitored and assurance derived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

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

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

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

Risk management



Risk universe

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

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

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

Risk ownership

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

Risk 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.

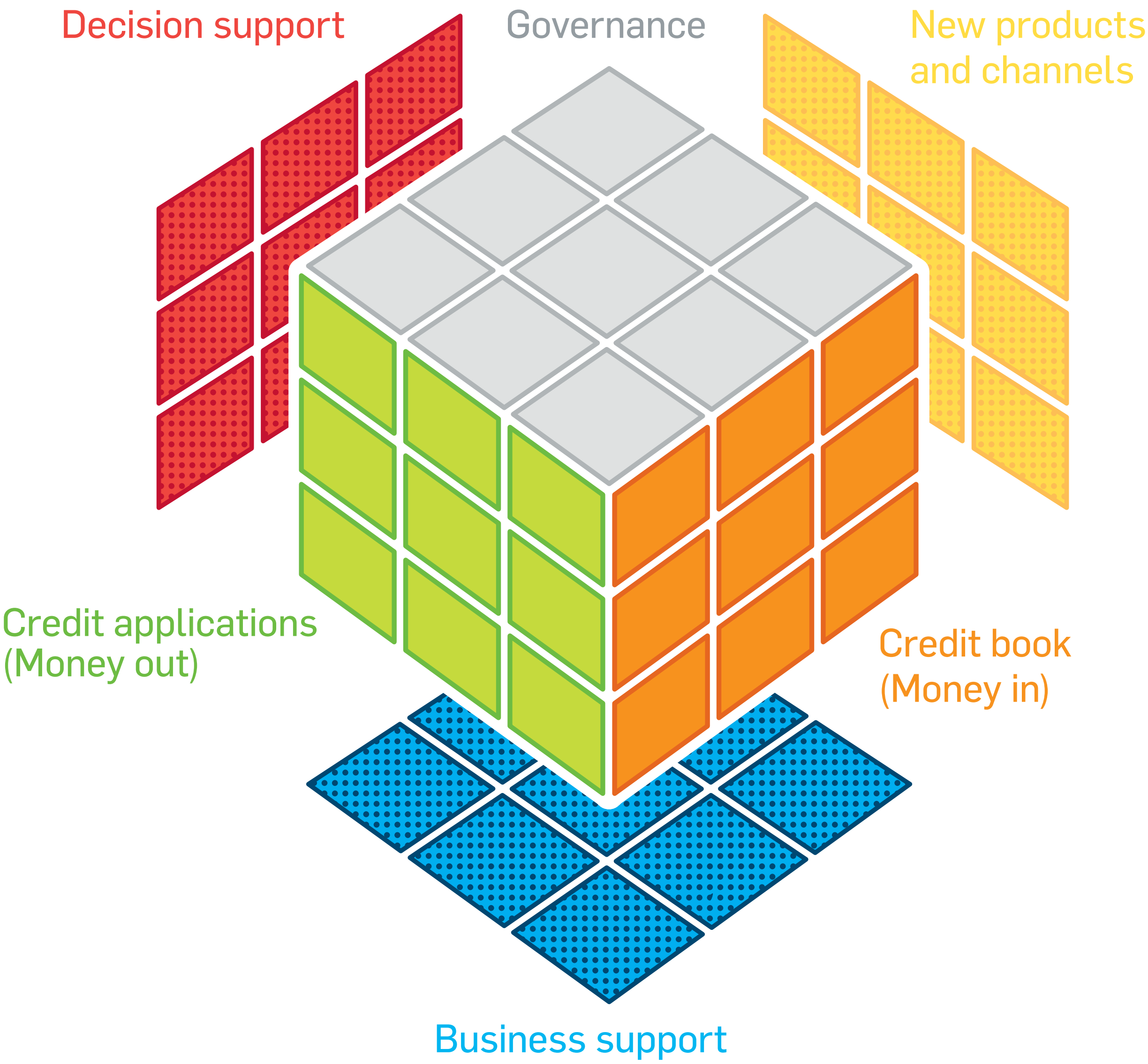
Independent assurance

Internal audit provides independent assurance of the adequacy and effectiveness of risk management practices. External audit provides independent assurance on the effectiveness of internal controls as far as these impact the financial statements.

Credit Risk

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

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



Governance

Governance includes the regulators, industry associations, the bank's financial governance and committees.

REGULATORS	NCR, SARB, OMBUD	
ASSOCIATIONS	BASA, SACRRA	
COMMITTEES	Credit committee, risk committee, risk and capital management committee and board	Credit committee: • Meets at monthly intervals to report and monitor credit risk, appetite and the economic landscape. • Meets at weekly intervals to report on operational credit monitoring and to workshop credit policies and related matters. • Key performance indicators are evaluated and if outside target and tolerance are brought under the attention of the committees. Action plans are agreed.
FINANCE	Pricing, Provisions, Regulatory reporting and ICAAP	Supports and influences credit strategy.

Decision Support

Decision support is a specialist credit risk statistical analysis team that develops credit models and scorecards that are aligned with business strategies and credit risk appetite.

MODELS AND SCORECARDS	• Design, develop and maintain credit models. • Monitor model stability. Some key indicators include Gini coefficient, Population Stability Index (PSI) and Kolmogorov Smirnoff Statistic (KS).
DESCRIPTIVE AND DIAGNOSTIC ANALYTICS	• Use business intelligence and data mining to determine what happened and what caused it.
STRATEGIC INSIGHT	• Provide strategic insight through implementation support, analytics, tracking, champion challengers, economic modelling etc.
PREDICTIVE AND PRESCRIPTIVE ANALYTICS	• Optimisation and simulation is used to determine what could happen and what should be done.

Credit applications (money out)

Credit applications focus on money out. The area is responsible for optimising, monitoring and influencing the credit granting decision.

CREDIT GRANTING POLICIES, TRAINING & ADMINISTRATION	• Influence granting policy through: – Analyses, operational intelligence and the external environment. • Branch credit granting policy maintenance, communication, training and monitoring. • Central quality assessments of loans granted.
CREDIT BUREAU	• Monitoring of credit bureau data accuracy.
CENTRAL CREDIT ASSESSMENT	• Branch referrals and central credit support function. • Influence granting policy by providing feedback on the results of branch operations feedback.
APPLICATIONS MONITORING	• Influence granting policy through data analyses of internal and external data, operational intelligence and understanding the external environment including inter alia an understanding of the likely trajectory of the economy and regulatory and structural changes in the credit industry. • Monitors whether policy changes are operating as intended using post implementation data monitoring. • Daily Dashboards in use include: – Application volumes, accept rates, take-up rates and sales. – Segmentation in reporting occurs to influence strategic direction. Segmentation views which address industry, competition and regional and branch trends. • Credit performance monitoring includes first payment default analysis, loan tranche, bad rate target and vintage tracking. • Weekly and monthly insight reporting.

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

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

Credit book (money in)

The Credit Book area focuses on all collections activities i.e. money in. This area is responsible for monitoring, improving and optimising collections and recoveries models and policies.

COLLECTING POLICIES, TRAINING AND ADMINISTRATION	• Influence collecting policies through: – Analyses, operational intelligence and external environment. • Custodianship of collecting policies: Maintenance, communication, training and monitoring.
EMPLOYER BASED COLLECTION STRATEGY	• Collections accuracy and optimisation. • Knowledge management for proactive decision making. • Employment and other risk events strategy.
INSIGHT AND CHANGE MANAGEMENT	• Weekly and monthly insight reporting to influence collections and recoveries strategies. • Coordination of development and implementation of strategic system and policy enhancements.
BOOK, COLLECTIONS AND RECOVERIES MONITORING	• Daily dashboards: – Segmentation in reporting to influence strategic direction e.g. employer, industry, income level. • Arrears, collection success, centralised collections activities and recoveries monitoring. • Influence and quantify credit policy enhancements and strategies.

Business support

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

BUSINESS INTELLIGENCE	Delivery of automated, standardised and custom developed reporting to influence credit strategy.
INFORMATION TECHNOLOGY: SYSTEMS CAPABILITY	Continuous improvement of the credit life cycle support systems and automation of policies.
BUSINESS DEVELOPMENT	Supporting the optimisation of systems and provides project and change management support.

New products and channels

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

CUSTOMER MANAGEMENT CAPABILITY
NEW PRODUCT DEVELOPMENT
NEW CHANNEL ENABLEMENT

Our approach to rescheduling

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

Rescheduling is used both as a rehabilitation and a pro-active mechanism to assist arrears and non-arrears clients who have changed their pay frequency or employer, may be experiencing a temporary cash flow problem or who may require relief due to a more permanent change in their circumstances.

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

Prudent with provisions, an arrears coverage ratio of

223%

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

All forms of rescheduling are governed by a centrally controlled rules engine which determines whether clients are eligible for rescheduling as well as to determine the maximum term by which a loan term can be extended. Rescheduling performance is continuously monitored on a segmented approach to ensure that the performance of these loans remains within the risk appetite of the bank; rules and provisioning are reviewed accordingly.

Counterparty credit risk

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

Investment credit risk

Capitec has a low risk appetite regarding the investment of surplus cash and liquidity buffers. This cash is invested in the wholesale money markets, per discretion of the treasury management department.

The treasury management department targets the weighted average maturity of the cash portfolio to be 90 days with a limit on individual assets of 365 days and maintains a healthy stock of highly liquid investments. A hold-to-maturity approach is used. The yield must commensurate any increase in risk.

Other credit risk

Corporate insurers

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

Suppliers

The credit committee assesses and approves suppliers as part of the procurement policy, to limit pre-payment risk on work-in-progress.

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.

Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure[1]		Aggregate gross period-end exposure[2][4]		Exposure post risk mitigation[2][3][4]		Risk weights[5]
	29 Feb 2016	28 Feb 2015	29 Feb 2016	28 Feb 2015	29 Feb 2016	28 Feb 2015	(%)
On balance sheet							
Corporate[6]	**3 019 030**	1 617 776	**2 839 793**	2 086 439	**2 678 227**	1 960 892	100
Sovereign[7]	**4 406 793**	3 921 671	**4 334 487**	3 361 552	**4 334 487**	3 361 552	–
Banks (claims < 3 mths original maturity)	**5 268 302**	2 745 677	**4 557 540**	2 411 444	**4 557 540**	2 411 444	20
Banks (claims > 3 mths original maturity)	**6 889 042**	5 455 252	**7 544 754**	5 849 613	**7 544 754**	5 849 613	50
Banks (Derivatives >3 mths Aaa to Aa3)	**165 596**	–	**224 893**	–	**224 893**	–	20
Banks (Derivatives > 3 mths A1 to Baa3)	**13 828**	162 539	**13 708**	57 905	**13 708**	57 905	50
Retail personal loans							
– with unidentified impairments	**37 309 949**	33 855 375	**37 040 404**	33 479 975	**37 040 404**	33 479 975	75
– with identified impairments[8]	**3 313 668**	2 673 922	**3 839 721**	2 847 588	**3 839 721**	2 847 588	100
Subtotal	**60 386 208**	50 432 212	**60 395 300**	50 094 516	**60 233 734**	49 968 969	
Off balance sheet							
Corporate facilities	**1 363**	–	**–**	–	**–**	–	100
Retail personal loans							
– retail guarantees	**–**	–	**–**	–	**–**	–	75
– committed undrawn facilities	**–**	2 679	**–**	–	**–**	–	75
– conditionally revocable commitments[9]	**319 174**	388 088	**204 013**	469 496	**204 013**	469 496	–
Total exposure	**60 706 745**	**50 822 979**	**60 599 313**	**50 564 012**	**60 437 747**	**50 438 465**	

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

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

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

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

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

(5) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the regulations. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade rating to a risk-weight percentage using the mapping table (shown on page 72). 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) 78.0% (Feb 2015: 84.7%) of corporate (unrated) aggregate gross period-end exposure relates to investments in money market unit trusts.

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

(8) An ageing of impaired advances is shown in note 8 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 their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 34.6% (Feb 2015: 22.7%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

Liquidity risk

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

Our approach

Liquidity risk is managed by the Asset and Liability Committee (ALCO) that oversees the activities of treasury which operates in terms of an approved Asset and Liability Management (ALM) policy.

Liquidity measurements

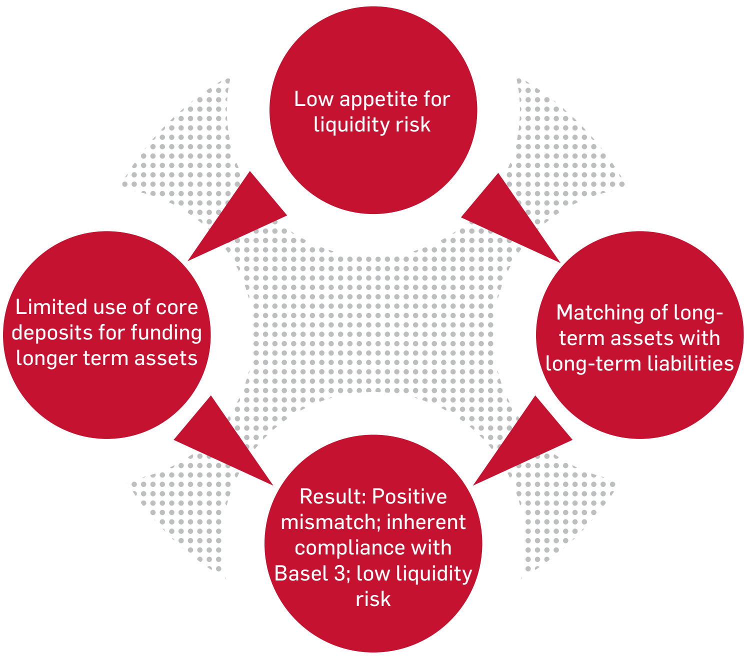
Contractual and behavioural liquidity mismatches

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

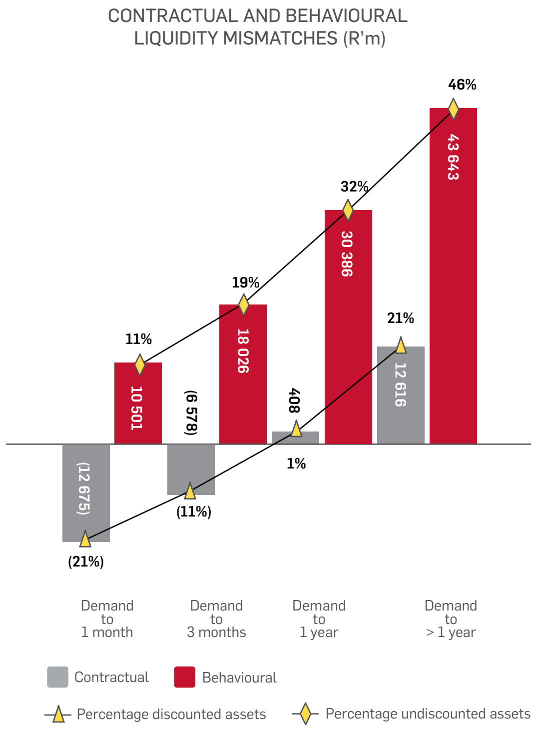
The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. Ninety two percent (2015: 92%) of these deposits are reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business as usual conditions.

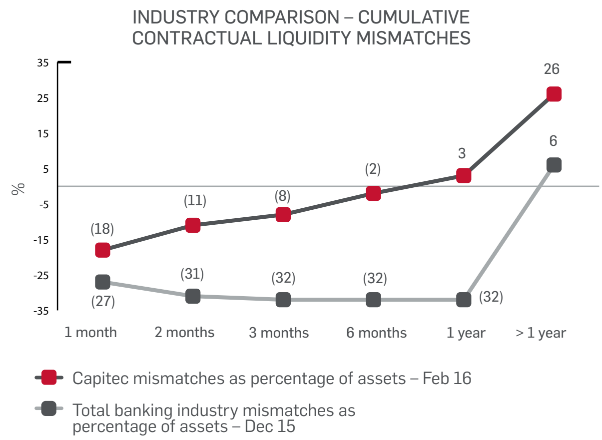
For cash planning purposes the contractual mismatch is utilised and not the behavioural mismatch.

LIQUIDITY RISK MANAGEMENT STRATEGY



Refer note 15 to the annual financial statements for details of the funding portfolio.





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

The Liquidity Coverage Ratio (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 70% is required from January 2016.

LCR – Group

LCR – Group	2016	2015
LCR (%)	**1 040**	1 210
High-quality liquid assets (R'm)	**6 671**	6 006
Net outflow [(1)] (R'm)	**641**	497

(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.

The Net Stable Funding Ratio (NSFR)

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

NSFR – Group

NSFR – Group	2016	2015
NSFR (%)	**145**	138
Required stable funding (R'm)	**34 406**	31 257
Available stable funding (R'm)	**49 968**	43 215

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

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.

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.

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

Our approach

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

Interest rate risk

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

Our approach

Capitec's interest rate repricing mismatch is the result of the decision 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 consequently aim to minimise the impact of rate changes on the value of equity.

Fixed interest rate retail loans

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

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

The impact of the liquidity strategy

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

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

The effect of shareholders' equity

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

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

Management of interest rate risk

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

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

REGULATORY SENSITIVITY ANALYSIS OF EQUITY – 200 BASIS POINT SHIFT

	2016		2015	
	R'000	(%)	R'000	(%)
Increase	**(700 840)**	**(4.2)**	(428 945)	(3.5)
Decrease	**725 017**	**4.4**	434 686	3.6

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.

ALCO approves interest rate pricing on funding and loan products, transaction fees and authorises any swap transactions. Refer also note 29 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. Any borrowing done in foreign currency is fully hedged using currency swaps.

Hedging of market risk

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

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

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

Business risk

This is the risk 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.

Our approach

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.

Our risk mitigation strategy includes:

- daily operational assessment of performance against the operational plan and MOS;
- monthly assessment of performance against strategic plan development; and
- system optimisation.

Daily operational management

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

- Service
- People
- Business optimisation

Strategic management

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

Refer note 29 to the annual financial statements for details on instruments hedged using currency swaps; notes 41 and 42 for details on derivative financial instruments.

Capital management

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

Capital to manage risk and growth

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

Supply-side risk

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

Demand-side risk

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

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

Capitec's principal policies when managing capital:

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

Capital for sustainability

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

Our approach

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

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

A strong common equity tier 1 capital ratio of

30%

ICAAP

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

Shareholders are referred to the website (www.capitecbank.co.za/investor-relations) and note 29 to the annual financial statements for full details regarding the regulatory disclosures, as required by the Banks Act.

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

Functions and processes of the ICAAP include:

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

The impact of Basel 3

Basel calculation methods for credit and operational risk capital

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

There are various methods used for the calculation of risk weights in terms of the Banks Act. Capitec's calculations of risk-weighted assets for credit and equity risks in the banking book 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 mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business.

The impact of Basel 3 on capital adequacy measurement

Loss absorbency

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

All capital that does not meet the new loss absorbency requirements will be phased out over a period of 10 years, with subordinated debt being phased out at the earlier of 10 years or 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.

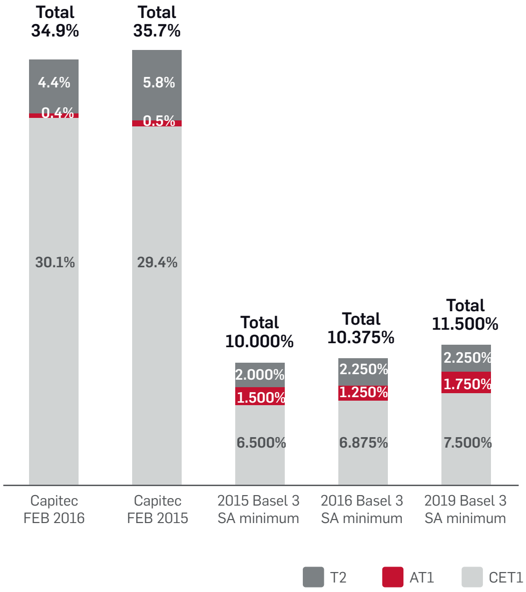
Leverage ratio

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 (2015: 5 times CET 1). The maximum allowed leverage in South Africa is 25 times CET1 capital.

Restrictions on the transfer of regulatory capital

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

CAPITAL ADEQUACY BY TIER



- *CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.*
- *AT1 – Additional Tier 1 capital – Capitec's perpetual preference shares qualify as entry-level AT1 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards.*
- *T2 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary as the interest cost is offset against revenue. This debt is regarded as third-party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the reporting period.*
- *Globally, the Basel 3 minimum capital adequacy percentage is 8%.*
- *The 2016 Basel 3 SA minimum includes the South African country buffer of 1.75% (2015: 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 phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers – Bank-specific buffers include the Individual Capital Requirement (ICR) and Domestic Systematically Important Bank (D-SIB) buffer. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. Any D-SIB requirement will be phased in over four years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis cannot be more than 3.5%.*
  - *A countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth. The implementation period commenced in January 2016 with the rate of 0%.*
  - *Haircuts to be applied against a deemed surplus attributable to minority and third-party capital issued by subsidiaries, which began phasing in from 2013 at 20% per year.*

Operational risk

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

Our approach

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

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

Our risk mitigation strategy includes:

Fraud mitigation strategy

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

Insurance

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

Business continuity

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

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

- The disaster recovery and evacuation plans have been tested successfully during the year.
- The IT disaster recovery (DR) plans have been tested successfully during the year. Capitec managed to complete a successful switch of all critical and essential systems to the DR site within the board and industry agreed timelines.

Compliance

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

Notable regulators that impact our conduct:

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

Our risk mitigation strategy includes:

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

Reputation risk

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

Our approach

Reputational risk is managed on an ongoing basis through our disclosure in our annual financial statements and through public statements.

Our risk mitigation strategy includes:

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

Stress testing and contingency planning

Stress testing programme

Capitec 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 are conducted.

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

Contingency planning

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

Liquidity recovery plan

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

Capital recovery plan

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

simplicity, is the ultimate sophistication

Our employees

Employees: the catalysts of value creation; the mind, heart, hands and face of Capitec.

Key performance indicators

		2016	2015	Change (%)	2014
Employees		**11 440**	10 261	11	9 070
Average gross appointments per month[(1)]		**414**	393	5	320
Employee turnover[(2)]	%	**16.1**	18.3		16.0
Average financial industry turnover[(2)]	%	**17.1**	19.3		18.6
Learning interventions		**38 601**	36 686	5	28 963
Internal promotions		**1 369**	1 251	9	925
Promotions to management level		**156**	173	(10)	157
Proportion of total promotions that were to management level	%	**11**	14		17

(1) Gross appointments include external appointments, internal appointments/promotions and internal transfers.

(2) *For the calendar year ending within the reporting year. Refer to employee turnover graph on page 86.*

Employees are the catalysts that enable Capitec to create value for its stakeholders through delivering the required outcomes on the right leadership strategies. Consequently it is a high priority to recruit, retain, develop and reward the right employees in a way that drives strategic outcomes aligned with stakeholder interests.

Recruit

The current high growth phase of the organisation positions talent acquisition as a critical facet of the business' sustainability.

Our approach

Attraction, sourcing and selection of talent remain a key and strategic focus. This is especially important in the context of a very competitive skills market.

Our objectives:

- Execute headcount expansion plans in line with our operational requirements and business priorities.
- Acquire an appropriate level of talent coverage for management positions.
- Create talent sourcing pipelines for critical specialist skills.
- Maintain compliance with regulatory requirements.

Our strategy:

- Improve attraction of scarce skills through targeted innovative advertisement campaigns and job postings.
- Proactive creation of talent sourcing pipelines for future job opportunities, particularly in critical areas of the business.
- Aligning the most appropriate recruitment methodology to select best fit candidate profiles.
- Improve management recruitment capability and process.

Employment equity

We are committed to providing equal opportunities to all employees and aim to build a diverse, high-quality staff profile.

Our strategy:

- Maintain a proactive, long-term focus by building diverse talent sourcing pipelines into and through the business to promote employment equity.
- Prioritise internal employee development.
- Continuously monitor equity barriers to advancement through our Employment Equity forums and an annual equity barrier analyses.
- Track progress against the Capitec Equity plan.

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.

Capitec workforce

The following table is the designated progress EEA2 reporting information submitted for the period December 2014 to November 2015 as per Department of Labour's statutory reporting requirements.

	Male				**Female**				**Foreign nationals**	
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female
Top management*	2	–	–	9	–	–	–	–	–	–
Senior management	2	2	2	43	–	1	–	9	1	–
Middle management	37	44	17	246	23	24	7	92	9	–
Junior management	266	211	39	250	446	230	57	193	8	3
Semi-skilled	2 082	547	104	178	4 358	1 102	142	252	1	16
Unskilled	118	6	2	–	104	4	–	–	–	–
Total permanent	**2 507**	**810**	**164**	**726**	**4 931**	**1 361**	**206**	**546**	**19**	**19**
Temporary employees	3	3	–	9	3	11	–	7	1	–
Total employees	**2 510**	**813**	**164**	**735**	**4 934**	**1 372**	**206**	**553**	**20**	**19**

** Christian van Schalkwyk and Nkosana Mashiya overlapped during the year.*

Retention

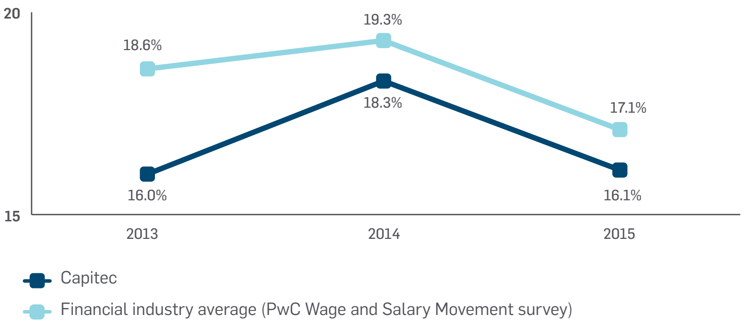
The accompanying graph illustrates calendar year average turnover for the financial industry compared to that of Capitec.

We track employee turnover in comparison with the financial services industry average, as supplied by PwC in their Salary and Wage Movement Survey results. We consider the PwC figure as our upper limit, but also aim to continually improve relative to it.

These figures show that Capitec's employee turnover is consistently lower than that of the financial industry over the past three years.

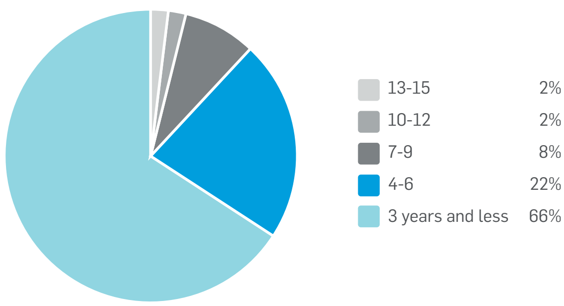
Our operational environment forms the largest portion of our staff complement and external appointments. The larger portion of these appointments are young candidates, identified for their potential rather than industry related skills, but whom we then can develop through our extensive induction and learnership programmes. The result is a relatively young employee profile.

CAPITEC EMPLOYEE TURNOVER RATE VERSUS FINANCIAL INDUSTRY AVERAGE



** Calculated as total separations for the calendar year divided by total number of employees at the end of the calendar year.*

EMPLOYEE TENURE (YEARS)



Our staff complement has seen considerable growth, sustained since the company started with a relatively small staff complement in 2001.

We are comfortable with the employee tenure as illustrated in the above graph, within the context of our turnover figure and our sustained growth in total employees.

Development

Once a suitable candidate has been acquired, their development is a team effort by the human resource departments of learning, talent management, employee relations and their line management. Here follows reporting from each of these areas.

Learning

We grow employee competencies aligned to business strategies by using effective and efficient learning interventions and programmes. All the initiatives in learning and development are led at key management level by the Executive: human resources who involves senior management during the design and delivery phases of learning programmes, to ensure business objectives are met.

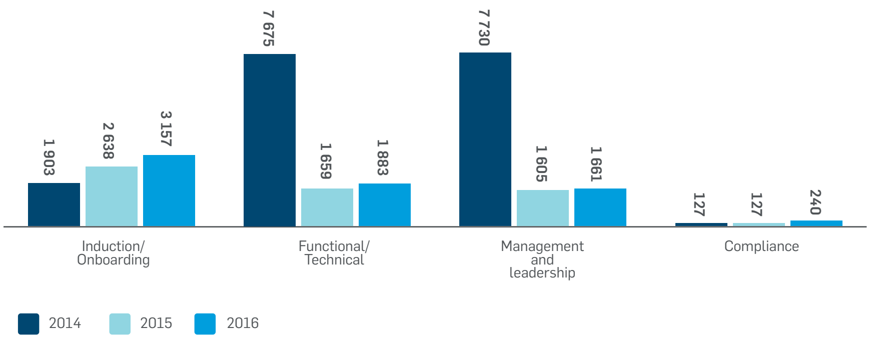
Our strategy:

- Accelerate leadership and management development at head office and BSC through new learning initiatives that support related existing and new initiatives in operations.
- Empower line managers to lead their people through strategic learning initiatives on performance management.
- A quality assurance drive at BSC to improve the speed and quality of service to clients.
- Continued efficiency in the on-boarding programme for new employees.
- Empower line managers to drive learning and development in the workplace through distance and workplace learning.
- Distance learning for all topics in the business, reaching all employees, including: media e-learning, assessments, system simulations, performance support tools, videos and team learning sessions.
- Facilitated learning sessions include the categories of which compliance, functional/technical/operations/customer service, induction/on-boarding, management and leadership.
- Four different accredited learnerships as well as a programme for recognition of prior learning. Qualifications obtained are certificates in banking at NQF levels 4 and 5.

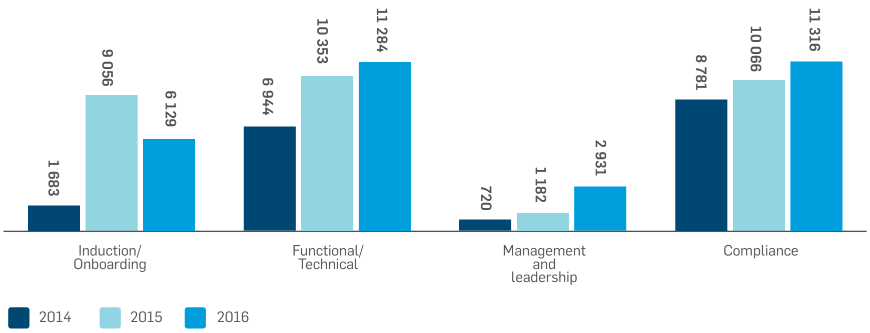
The Number of Employees Attending Courses graph below categorises the number of face-to-face training interventions over the past three reporting years. The increase in 2014 of functional/technical, and management and leadership training was due to the roll-out of both the Service Project and the Credit Learning Programme that year.

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

NUMBER OF EMPLOYEES ATTENDING COURSES



NUMBER OF COMPLETED DISTANCE LEARNING INITIATIVES



Leadership training focus

Due to its rapid growth Capitec faced the challenge of a larger cohort of technical managers managing large teams of people while maintaining the entrepreneurial and "can do" attitude. In the 2016 financial year, management and leadership was the focus of the courses attended by 1 661 employees and of 2 931 distance learning initiatives completed.

In the operations and branches environment 760 employees completed one of the ongoing learning initiatives focusing on management and leadership capabilities.

A focus area at both head office and BSC was to raise people leadership capability through various leadership programmes listed here.

A graduate bursaries programme was initiated in 2015 with the aim of supporting our leadership pipeline and achievement of our employee equity targets. We granted 10 tertiary bursaries for the 2015 educational (calendar) year to mainly information technology students to complete their qualifications. These students were all employed at the end of the year and the programme has been extended to 20 bursaries for the 2016 educational year.

1 661

employees attended management and leadership courses.

Management levels participating	Programme development and delivery	Themes	Leadership behaviours entrenched
33 Senior managers	Partnered with a leading business school	· Performance Leadership; · Self-Leadership; · Effective Engagement and Collaboration; · Team Leadership; · Problem-solving and Decision-making.	· Developing our people; · Engaging everyone positively and constructively; · Inspiring each other; · Taking ownership of every managerial and leadership opportunity.
107 Managers	Internal only		
107 Team leaders	Internal only		

During the 2016 financial year,

38 601

learning interventions were completed.

Bursaries

Self-study learning opportunities, supplemented with course interventions, create an environment where individuals take ownership of their work and development.

To support this, the internal study assistance programme is a bursary scheme for employees who wish to obtain tertiary qualifications. Our annual budget for bursaries was increased to R3 million for the 2016 financial year and 135 employees received bursaries to obtain a tertiary qualification. The aim is to enhance the supply of internal candidates for growth opportunities.

Talent management

Our strategy

An integrated talent management framework is employed to enable continued development and promotion from entry level right through to key management level. Various strategies are incorporated to both facilitate and improve operational efficiency and performance while maximising employee benefit.

Capitec Leadership Engagement

During 2015, all head office employees were encouraged to voluntarily participate in the first Capitec Leadership Engagement survey. The purpose of the survey was to provide greater understanding of employees' perceptions of leadership practices in relation to their experiences of direction, leadership, engagement, performance and feedback, respect and teamwork within Capitec.

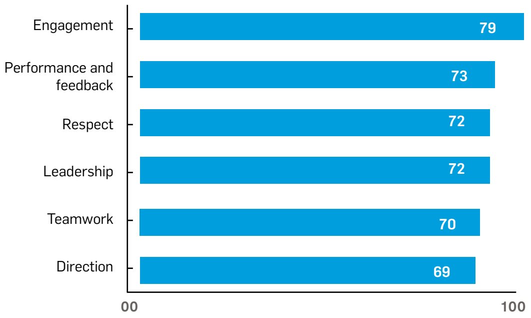
The data gathered during this process acted as input into the Capitec Leadership Programmes to ensure a greater alignment between the practical management challenges identified and the key learning outcomes of the various programmes. Responses were received from 72% of head office employees.

Our strategy:

- Detailed feedback was presented to EXCO during May 2015 on the high-level results with the aim of agreeing on the key focus areas for the organisation. This was followed by individual feedback sessions with each executive and his management team on the results of each specific division.
- To capitalise on the learnings of the survey, specific action plans were developed and implemented that relate to improved communication, performance contracting and feedback, and cross function and collaboration.
- The results of the survey was also presented and discussed during the Leadership Development Programme engagement days (see earlier discussion of this programme under the heading "Leadership training focus") to provide additional opportunity for feedback and clarification of the results.
- The survey results will be utilised as a baseline to which we will track the impact of our leadership interventions and employee engagement initiatives.
- A follow-up survey is planned for quarter 2 of the 2017 financial year to determine progress on the implemented initiatives.

The accompanying graph represents responses that were reported as percentages of favourable ratings ("agree" and "totally agree") of all the responses received from the survey.

EMPLOYEE ENGAGEMENT SURVEY RESULTS (%)



Employee relations

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

- proactive management encouragement of two-way communication across all levels;
- employee-related policies, including (but not limited to) disciplinary, grievance and sexual harassment policies;
- the communication of these policies to employees; and
- continuous monitoring to ensure compliance with the applicable legislation.

Support is provided by a dedicated advice service, including continuous training programmes that are 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.

Performance management

An effective performance management system is at the core of effective talent management. Our performance management practices are well established and support our continuous improvement focus.

Our strategy:

- Continued development of our MOS that enables us to track variances in performance.
- Individual employee performance agreements that form the basis of regular review conversations.
- Bi-annual performance assessments.
- Individual performance development plans.
- Bi-annual organisational review.

The MOS links company-wide strategic initiatives and key performance indicators to divisional goals and measures that in turn are cascaded down through every level to the grassroots employee. It is a reporting channel that provides a view on all levels of measurements on a weekly and monthly basis (as is relevant for each respective measure). It also integrates into the personal performance measures of employees on all levels, aligning the entire organisation.

In the Remuneration Report that follows, we explain how we remunerate to drive performance that delivers strategic outcomes that our leadership advances to best steward shareholders' interests.

Remuneration report

Part 1: Remuneration policy looking forward

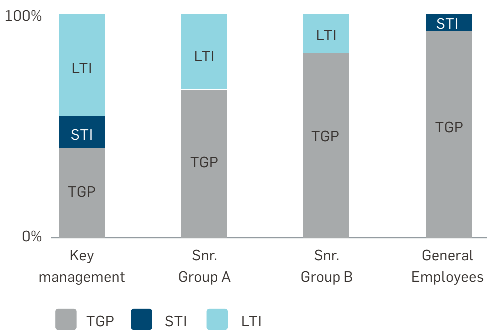
Letter from the chairman of the human resources and remuneration committee (REMCO)

Capitec performed well over the past financial year. Rather than becoming complacent, we continually strive to improve. With regard to remuneration we do this by listening to our shareholders and comparing ourselves to best practice. We made several improvements, which I shall summarise below, but first, let me provide context.

Our remuneration philosophy
Our remuneration philosophy originates from our stewardship of shareholder interests. We develop strategies that best advance shareholder interests through sustainable growth (see chapter 8). Then we link our remuneration to the performance of these strategies and carefully monitor the progress thereof. This is integrated across all employee levels ensuring that only actions that advance shareholder interests are rewarded. Special care is taken to remain relevant in the market and to compete effectively for critical talent.

Appropriate remuneration structures and proportional splits of total remuneration (TR) into total guaranteed pay (TGP), short-term incentive (STI) and long-term incentive (LTI) are applied according to levels of influence (strategic, tactical, and operational) and corresponding time horizons (long-, medium-, and short-term).

Group	Focus	Strategic view	Remuneration	Longest period of income deferral
Key management (including CEO and CFO)	Leading strategy formulation	Longest-term	TGP, STI, LTI (equity instruments)	6 years
Senior management Group A	Strategic delivery (key management succession pool)	Long- to medium-term	TGP, LTI (cash-settled)	3 years
Senior management Group B (incl. critical roles)	Critical tactical delivery (Group A succession pool)	Medium-term	TGP, LTI (cash-settled)	3 years
Other employees	Operational	Short-term	TGP, STI	1 year



In the accompanying graph, all proportions assume on-target performance.

Key management LTI have personal performance criteria going in and company performance criteria at vesting. Their STI forms a small proportion of key management TR.

For senior management (and critical roles), LTIs are awarded subject to company performance being on-target and personal performance being satisfactory. Awards are settled in three cash tranches spread equally over three years. All unpaid balances in LTI are exposed to negative adjustments proportionally to company profit decline.

For other employees the main component of TR is TGP. These employees take part in the annual performance bonus (an STI) which is subject to company performance targets (year-on-year growth in HEPS) being achieved or exceeded. In specific business units, employees may also take part in department specific STI programmes which drive focused production targets.

Forward looking changes

The key management remuneration policy was reviewed with the aim of making changes which:

- will continue to support Capitec's successful business strategy;
- are easy to understand for the members of key management and shareholders;
- take into account feedback received from shareholders; and
- address best practice remuneration governance principles.

The changes are forward looking for the 2017 financial year and include:

What we heard	Changes for the 2017 financial year
A market related pay mix	
The STI component makes up a very small part of key management's total pay mix. The result is that the pay mix is more heavily weighted towards TGP and LTI.	Robust performance metrics are required to earn STI. STI remains cash-based and modest. This is in line with our strategy of encouraging long-term vision and decision-making by our key management, as opposed to short-term thinking. In addition to current company performance conditions, satisfactory personal performance is a minimum requirement for STI payment.
Allocation policy for LTI	
The current allocation policy is complex and, as allocations are not made regularly, it could result in large share amounts vesting or retention challenges where the share price stabilises.	Regular annual awards (as a percentage of TGP) are made at the same time every year. Factors considered in allocation: • Personal performance conditions agreed and documented as a participation criteria. • The quantum of the annual awards taken into account for key management's TR benchmarking.
TGP increases	
TGP increases for key management should be appropriately positioned.	Key management TGP increases are based on personal performance review results and TR benchmarking compared to the market. The pay mix and TGP increases support Capitec's remuneration policy, i.e. guaranteed remuneration should be competitive and sufficient in quantum to ensure that key management are not over reliant on STI. Variable remuneration is rather focused on LTI.
Performance conditions	
Financial performance conditions should be imposed in order for LTI to vest, in addition to the inherent share price growth requirement.	All awards made in terms of the Share option plan (options and SAR) from the 2017 financial year are linked to financial performance conditions. Performance conditions include a company earnings based metric and a return on capital measure (measured relative to Capitec's competitors).
Share instrument pricing	
SAR instruments should not be granted at a discount.	LTI consists of options and cash-settled SAR (50%/50%) at a strike price equal to the 30 day VWAP prior to grant.
Vesting period	
Vesting of first tranche of LTI awards too short after award date (i.e. 2, 3, 4 and 5 years).	In the future options and SAR will vest over six years as opposed to the past two years where it was temporarily over five years. (i.e. vesting will be from years three, four, five, and six in equal tranches of 25% each). The six year vesting period (for the final tranche) further aligns shareholder and key management interest and supports retention.
General alignment with shareholders	
Shareholder sentiment that key management should be exposed to the same risk as shareholders.	Introduction of a minimum shareholding guideline in terms of which all Capitec key management volunteer to hold a share ownership (through direct shareholding and not unvested LTI) that is not less than the value of a the following proportion of their respective TGP: • CEO and CFO: 300% (already qualify) • All other key management: 100% (most qualify)

We have embraced the emerging trend to have a two part remuneration report (i.e. Part 1 dealing with Capitec remuneration policy and Part 2 dealing with the implementation of the policy). Where possible we have used graphs and tables to communicate our remuneration policy and outcomes. As in previous years, we will put Capitec's remuneration policy (in Part 1) to shareholders for a non-binding vote.

We trust you will find our improved remuneration policy progressive and our remuneration report valuable, and we look forward to another rewarding year with you as shareholder.

Chris Otto
Chairman: REMCO

REMCO

The remuneration policy is governed by the REMCO, designed to promote the achievement of company strategic objectives and risk management, in order to foster enduring value creation for shareholders. The 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; and
- address remuneration risks inherent in the banking environment.

This is detailed in its annually reviewed board-approved charter, which adheres to section 64C of the Banks Act, Act 94 of 1990 (the Banks Act).

In carrying out its mandate, the REMCO has 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 its charter.

The REMCO consists of three non-executive directors, of which two are independent. The committee is chaired by Chris Otto, an independent non-executive director. The chairman of the board is also a member.

Activity	Result/key decision
Disclosure in terms of regulation 43 of the Banks Act	Performed through this annual report.
As tasked by the board through the REMCO charter, confirm that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act, King III guidelines, and that shareholder feedback is taken into account	Compliance confirmed to the board. Investor feedback taken into consideration.
Monitored remuneration practice and adherence to the remuneration policy, meeting formally at least once a year and on an ad hoc basis as deemed necessary	Approved practice in line with remuneration policy.
Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust	Compliance with trust deed.
Evaluated annual increases, including those relating to directors	Approved all annual increases for Capitec staff; Proposed non-executive director fees to the board for recommendation to the shareholders for consideration at the AGM.
Review remuneration policies in line with best practice and governance standards on an annual basis, including key management bonuses and incentive schemes	Review completed. Constructive changes to key management remuneration going forward (outlined in the chairman's letter and detailed in Part 1).
As required by Basel and King III, annually consider whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking	Due consideration was given and although past practice was found to be satisfactory, learnings from this exercise was incorporated into the constructive changes to key management remuneration going forward (outlined in the chairman's letter and detailed in Part 1).

General remuneration principles

Considering performance; determining increases

As a general principle, all increases for all employees (including directors and key management) are determined by taking into account the following factors:

- Performance of the individual, the team and the company;
- Competence;
- Benchmarking;
- Forecasted profitability; and
- Economic factors, including (but not limited to) the consumer price index.

Pay mix

The following table is an overview of the remuneration components that constitute the TGP, STI, and LTI remuneration categories at different levels.

Level	TGP	STI	LTI
Key management (including CEO & CFO)	Base salary plus benefits	Key management bonus	Options and SAR
Senior management and critical roles	Base salary plus benefits	–	Senior management performance bonus scheme
General employees	Base salary plus benefits	Incentive scheme and/or annual performance bonus	–
Non-executive directors	Fixed fee only	–	–

Incentives form a larger portion for critical roles, senior management and ultimately at key management level, but will not accrue if minimum personal and company financial performance criteria are not met. At the more senior levels of management the largest part of variable remuneration consists of LTI paid or vested in tranches over a number of years with performance criteria attached. Capitec does not focus on STI for variable remuneration of key management.

Senior management performance bonus scheme

Participants: senior management and roles identified as critical to the success of the organisation (specifically excluding key management and directors).

Goal: to motivate a medium term strategic focus for these employees.

Characteristics of the scheme include:

- Cash-settled.
- Performance criteria "on the way in" include minimum personal performance and minimum company performance (growth in HEPS) in order to qualify for an award.
- The benefits vest and pay out over three years in three equal tranches.
- Should the company performance decline, all unpaid balances in the scheme will decrease with the same percentage.
- Forfeiture of all balances in the scheme on termination of employment other than formal retirement.
- 75% of balances in scheme paid out on early retirement between 60 and 65 years and full balance paid at normal retirement age of 65.

Key management pay mix

The key management pay mix proportional split between TGP, STI and LTI will not change significantly from the 2016 to the 2017 financial year.

A benchmarking exercise was conducted during the financial year to examine key management TR and pay mix. Capitec's pay mix was compared to the financial services market pay mix for similar roles.

The following methodology was used to select Capitec's comparator company group:

- companies of similar size to Capitec in terms of market capitalisation; and
- companies in the same industry to Capitec were included (however, where these companies' market capitalisation exceeded that of Capitec, their information was appropriately weighted in the market benchmark).

The principle aim of the comparator group selection was to provide a comparator group for TR benchmarking which includes companies of similar profile to Capitec and avoids "cherry picking".

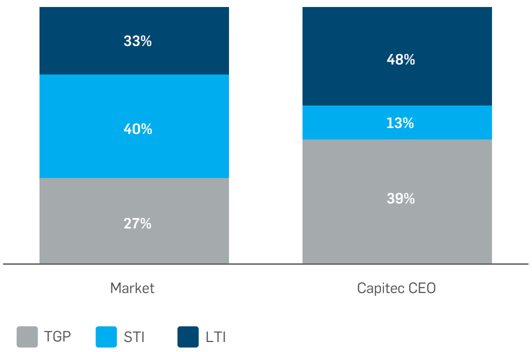
From this exercise it was evident that, for Capitec key management:
- the quantum of TR for key management is either lower or aligned to TR of the market;
- LTI (assuming on-target performance and using expected value) forms a larger portion of TR than in the market pay mix;
- STI forms a smaller portion of TR than in the market pay mix; and
- TGP forms a larger portion of TR than in the market pay mix.

This supports Capitec's key management remuneration policy of not focusing on STI and short-term goals.

It should also be noted that the pay mix is based on relativity and has to be viewed relative to a smaller STI component than the general financial services market pay mix.

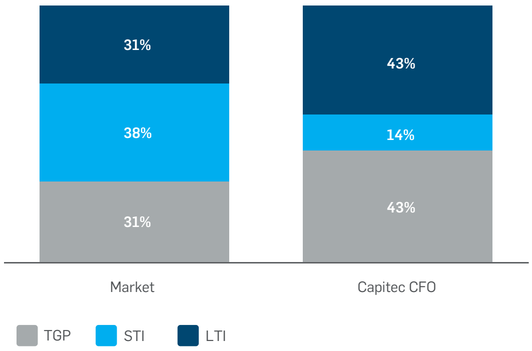
Executive director pay mix

CEO: PROPOSED PAY MIX VS MARKET PAY MIX



The accompanying graphs compare the forward looking 2017 financial year pay mix of Capitec's Executive Directors, namely the CEO and the CFO, with the general market pay mix for the financial services industry. It uses an assumed on-target performance and the expected value of LTI.

CFO: PROPOSED PAY MIX VS MARKET PAY MIX



TGP

TGP for key management will continue to be informed by the Capitec approach to key management pay mix described above and how TGP forms part of TR at market median (or the upper quartile in instances where this is warranted).

STI

Capitec's key management remuneration policy and pay mix provides for very modest cash STI, but requires considerable performance. This is in line with Capitec's policy of risk alignment and encouraging long-term vision and decision-making by key management, as opposed to short-term goal setting.
- Personal performance measure: personal KPIs contracted with REMCO by each member of key management.
- Company performance measure: Year-on-year HEPS growth.
- Failing on-target performance in either will warrant no payment.
- The STI is self-funded and settled in cash.

Key management's earning potential for STI:

Percentage year-on-year growth in HEPS	Payment as percentage of annual TGP
Below target	No payment
On-target	33%
Stretch	54%

LTI

LTI for key management are awarded annually as a percentage of TGP. Options and SARs are granted on an equal (50% options, 50% SARs) basis. Participants have a six-month period after the date on which the options and SARs mature during which they can be exercised.

SARs
SARs are granted to eligible employees and are cash-settled, but linked to equity performance. It is a simple, yet effective instrument that does not dilute issued share capital. The SAR strike price is determined in accordance with that of options.

Options
Eligible employees are granted options to purchase ordinary shares in Capitec at an option price equal to the market value of the share, being the 30-day volume weighted average price per Capitec share on the JSE immediately preceding the day on which the options are granted. The employees are entitled but not obliged to purchase Capitec shares at the predetermined exercise price.

Vesting period and performance conditions
Options vest in years three, four, five and six after grant, in 25% tranches.

Beyond the minimum personal performance conditions for participation (KPIs contracted with REMCO), vesting is subject to the following company performance conditions, for all awards from 2016 onwards:

Measure	Minimum requirement for vesting	Weighting
HEPS	Growth exceeding Consumer Price Index plus percentage growth in GDP plus 4%	50%
ROE	Outperform the average ROE of the 4 traditional banks in SA	50%

Capitec chose an earnings metric and a return metric (equally weighted) as company performance conditions for vesting to ensure that the combination motivates key management to drive both measures as opposed to one measure at the cost of another. Both are measured over a cumulative three-year performance period. The extent to which the performance conditions are met will determine the percentage vesting. After the initial three-year financial performance period, vesting is further subject to continued employment for years four, five and six.

Termination of employment and effect on unvested LTI

- Retirement: The following table sets out the vesting of LTI on retirement, subject to REMCO discretion:

Retirement Age	Options and SAR
Before 60 years	Forfeit all non-vested options & SAR
From 60 years to 64 years	75% of options and SAR will vest at the original future vesting dates
At 65 years	100% vesting of all options and SAR at the original future vesting dates

- Just cause dismissal/resignation: unvested LTI's are forfeited.
- Death and ill-health: At the discretion of the REMCO, automatic vesting of LTI.

Share dilution usage for LTI
Since the establishment of Capitec, 16.6 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these options that have been exercised. The balance of ordinary shares required to settle options that have been exercised, were acquired in the market.

In terms of the Capitec Bank Holdings Share Trust (the Trust) deed, a maximum of 11.53 million ordinary shares may be issued for purposes of the Trust (scheme allocation) after which shareholder approval will have to be obtained to determine a new scheme allocation.

The past dilutive effect of issues of ordinary shares for purposes of the Trust since inception of Capitec amounts to 5.04% of the issued ordinary share capital of Capitec as at 29 February 2016.

The potential future dilutive effect is limited by the fact that the remaining ordinary shares that may be issued for purposes of the Trust amounts to 4.93% of the issued ordinary share capital of Capitec as at 29 February 2016.

Executive director and key management contracts

Executive directors and other key management of the group do not have fixed term or bespoke key management contracts, but are employed in terms of the group's standard contract of employment. The notice period for termination of service is one calendar month, however this was amended during the 2015 financial year so that, for new key management appointments, the notice period will be three months.

Normal retirement age ranges between 60 and 65 years, unless requested by the board to extend this term.

No additional payments are made to key management upon termination of employment (apart from those required in terms of labour legislation), and they do not receive sign-on bonuses.

Upon termination of employment all STI will be forfeited and unvested LTI will be treated in accordance with the LTI policy (refer to earlier paragraph titled "Termination of employment and effect on unvested LTI").

Alignment of remuneration with risk, and minimum shareholding requirements

The REMCO forms part of the formal risk governance framework (as set out in chapter 9 of this integrated annual report) and is mandated by their charter to assess 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 the REMCO is a member of the RCMC and is therefore fully apprised of risk matters. The REMCO reviews variable remuneration and incentive plans to ensure that they are based on a measurable end result.

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 the REMCO. This happens independently of the relevant risk departments.

Minimum shareholding requirements (MSR)

Minimum shareholding requirements expose key management to the same risks and rewards faced by Capitec's shareholders.

Capitec's key management volunteer to hold an outright share ownership (through direct shareholding and not unvested LTI) that is not less than the value of the following proportion of their respective TGP.

Position	Minimum holding in proportion to TGP
CEO	300%
CFO	300%
Key management	100%

Shares are held until termination of employment and the percentage shareholding should be achieved within five years from 1 March 2016 or within five years of the appointment of a new member of key management.

Shareholding will be measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director (NED) fees

NED 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. Board members 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.

NEDs do not qualify for any STI.

No new LTI allocations are made to NEDs, but previous tenure as a member of key management may result in legitimate vesting of a previously awarded LTI.

NEDs are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties.

Proposed 2017 financial year NED fees

Fees for the 2017 financial year will be submitted for consideration by the shareholders at the annual general meeting. The proposed fees are as follows:

Directors' fees (R'000)	2017	2016	Change (%)
Chairman of the board	1 200	1 200	–
Chairman of the audit committee, RCMC and REMCO	235	216	9
Chairman of the social and ethics committee	55	52	6
Committee membership	55	52	6
Board membership	275	254	9

** The fee increases reflect the increasing demands on time invested due to the increase in the size and complexity of the company.*

Part 2: Remuneration outcomes for the year under review

Outcomes are illustrated by providing:

- an overview of the incremental total remuneration growth over the past 3 years compared to some key financial metrics (i.e. the value added to shareholders in terms of metrics such as HEPS and ROE);
- TGP increases in line with the Capitec total remuneration policy approach;
- STI earned versus the actual outperformance to targets set;
- LTI awarded to key management during the year under review, as well as the balance of LTI (unvested) which could vest in future years;
- a single remuneration figure for the value of guaranteed and variable remuneration realised during the year (i.e. STI earned and LTI exercised); and
- The NED fees paid to individual NEDs for their services as board members and committee members.

Performance versus incremental remuneration increase

	Headline earnings (R'm)	Total key management remuneration (R'm)*	Remuneration as percentage of headline earnings (%)	ROE (%)
2016	3 222	101	3	27
2015	2 547	62	2	25
2014	2 017	41	2	23
2013	1 584	42	3	27
Value created over 3 year period versus remuneration cost differential	1 638	59		

**Includes all key management's TGP, STI and LTI at fair value granted during the year and measured on the reporting date.*

Considering the value created for investors over the three-year period in comparison to the incremental total remuneration increase over the same period, pay progression on total remuneration is deemed to be fair and reasonable.

TGP

The following table sets out the TGP increases for the Executive directors:

Executive directors (R'000)	2016	2015	Change (%)
G Fourie	**8 486**	6 613	28
A du Plessis	**6 921**	5 576	24
	15 407	12 189	26

As a result of the TR benchmarking exercise (explained in detail in Part 1), key management's TR components were adjusted to bring their TR into line with the market. Based on Capitec's policy of not paying large STIs the adjustments were made in terms of TGP and LTI (comprising the largest adjustment).

STI

The following table compares the executive directors' STI paid with the scheme's on-target earning potential and the company performance metric on which the payment was based.

Executive directors	FY 2016 STI amount (R'000)	Actual 2016 STI as percentage of annual TGP (%)	On target STI earning potential as percentage of TGP (%)	Margin by which Capitec's HEPS performance exceeded the budgeted HEPS
G Fourie	4 427	52	33	26% actual year on year HEPS growth versus budget of 17%
A du Plessis	3 646	53	33	

A year-on-year growth in HEPS of 26% was achieved. This fell at a stretch value.

LTI

The table below provides an overview (on an executive director basis) of the options and SARs awarded during the year, those which were exercised (or lapsed) as well as the balance of options or SARs not yet vested and/or exercised (outstanding LTI).

The indicative value of outstanding LTI was calculated based on the number of instruments at the Capitec year-end share price less each instrument's strike price.

G Fourie	Year awarded	Number of instruments awarded	Number exercised in year	Number lapsed in year	Closing number of unvested and/ or unexercised instruments	Indicative value of unvested and/ or unexercised instruments (R'000)
Options						
	2013	20 000	74 000	–	169 000	20 727
	2014	45 000	64 000	–	150 000	9 613
	2015	18 330	81 875	–	86 455	18 469
	2016	91 487	19 582	–	158 360	27 451
SARs						
	2013	20 000	46 875	–	155 000	18 597
	2014	45 000	50 000	–	150 000	9 613
	2015	6 225	52 500	–	103 725	26 868
	2016	31 106	45 931	–	88 900	31 339

A du Plessis	Year awarded	Number of instruments awarded	Number exercised in year	Number lapsed in year	Closing number of unexercised instruments	Indicative value of unvested and/ or unexercised instruments (R'000)
Options						
	2013	20 000	82 125	–	185 250	22 580
	2014	17 500	72 125	–	130 625	10 912
	2015	23 746	87 500	–	66 871	14 746
	2016	69 454	22 186	–	114 139	19 546
SARs						
	2013	20 000	50 000	–	166 250	19 689
	2014	17 500	53 125	–	130 625	10 912
	2015	8 065	56 875	–	81 815	23 054
	2016	23 614	48 891	–	56 538	21 570

Executive director single figure

The single figure remuneration (i.e. TGP, STI and LTI which was exercised) for executive directors for the year under review is disclosed below:

Executive directors (R'000)	TGP (including guaranteed benefits)	STI	LTI exercised*	Total remuneration
2016				
G Fourie	**8 486**	**4 427**	**22 684**	**35 597**
A du Plessis	**6 921**	**3 646**	**24 521**	**35 088**
	15 407	**8 073**	**47 205**	**70 685**
2015				
G Fourie	6 613	2 127	27 108	35 848
A du Plessis	5 576	1 968	28 625	36 169
	12 189	4 095	55 733	72 017

** Number of options and SARs exercised during the year under review multiplied by the share price on exercise date less the strike payable of the options and SARs on grant date.*

NED actuals (as approved at previous AGM)

2015 vs. 2016 financial years

Non-executive directors received no other remuneration or benefits beside directors' fees. For the year under review the following were the non-executive directors' fees.

Non-executive directors' (R'000)	2016	2015	Change (%)
MS du P le Roux	**1 200**	1 200	–
RJ Huntley	**306**	283	8
JD McKenzie	**522**	483	8
NS Mjoli-Mncube	**306**	283	8
PJ Mouton	**462**	427	8
CA Otto	**574**	531	8
G Pretorius	**306**	283	8
R Stassen	**388**	283	37
JP Verster (1)	**491**	–	100
JP van der Merwe (2)	**29**	531	(95)
	4 584	**4 304**	**7**

(1) Appointed 23 March 2015.
(2) Resigned 20 March 2015.

Remuneration Analysis

Capitec Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	13[1]	92	11 335	11 440	Key performance indicators
Remuneration awards						
Fixed	R'000	45 509	135 189	1 751 487	1 932 185	
Cash remuneration	R'000	45 509	135 189	1 751 487	1 932 185	
Variable	R'000	184 336	151 426	157 460	493 222	
Cash staff performance bonus	R'000	23 186	1 168	157 460	181 814	
Cash bonus bank	R'000	–	114 556	–	114 556	
Share options[1]	R'000	75 746	18 594	–	94 340	
Share appreciation rights[1]	R'000	85 404	17 108	–	102 512	Note 24
Variable remuneration						
Employees receiving awards	Number	13[1]	92	11 335	11 440	
Non-deferred	R'000	23 186	40 209	157 460	220 855	
Deferred	R'000	161 150	111 217	–	272 367	
Outstanding deferred remuneration	R'000	167 993	133 516	–	301 509	
Cash bonus bank	R'000	–	107 905	–	107 905	Note 17
Share options[1]	R'000	84 684	12 642	–	97 326	Note 39
Share appreciation rights[1]	R'000	83 309	12 969	–	96 278	Note 40
Deferred remuneration paid out	R'000	158 460	72 040	–	230 500	
Cash bonus bank	R'000	–	31 315	–	31 315	
Share options[1]	R'000	45 042	18 075	–	63 117	
Share appreciation rights[1]	R'000	113 418	22 650	–	136 068	
Employees' exposure to adjustments	R'000	167 993	133 516	–	301 509	
Implicit adjustments	R'000	167 993	25 611	–	193 604	
Post explicit adjustments	R'000	–	107 905	–	107 905	
Total remuneration exposed to adjustments	R'000	167 993	133 516	–	301 509	
Implicit adjustments	R'000	167 993	25 611	–	193 604	
Post explicit adjustments	R'000	–	107 905	–	107 905	
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 which retired on 31 December 2013 and remained involved as a non-executive director from 1 January 2014, as well as two executive officers who retired during the current financial year in line with the remuneration policy.

people ... what banking is all about

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 52 more branches during the year, in areas where the majority of South Africans work, shop and live.

The aim of mobile units is 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 has succeeded this year to serve 106 027 (2015:106 087) clients through 168 (2015: 158) mobile units.

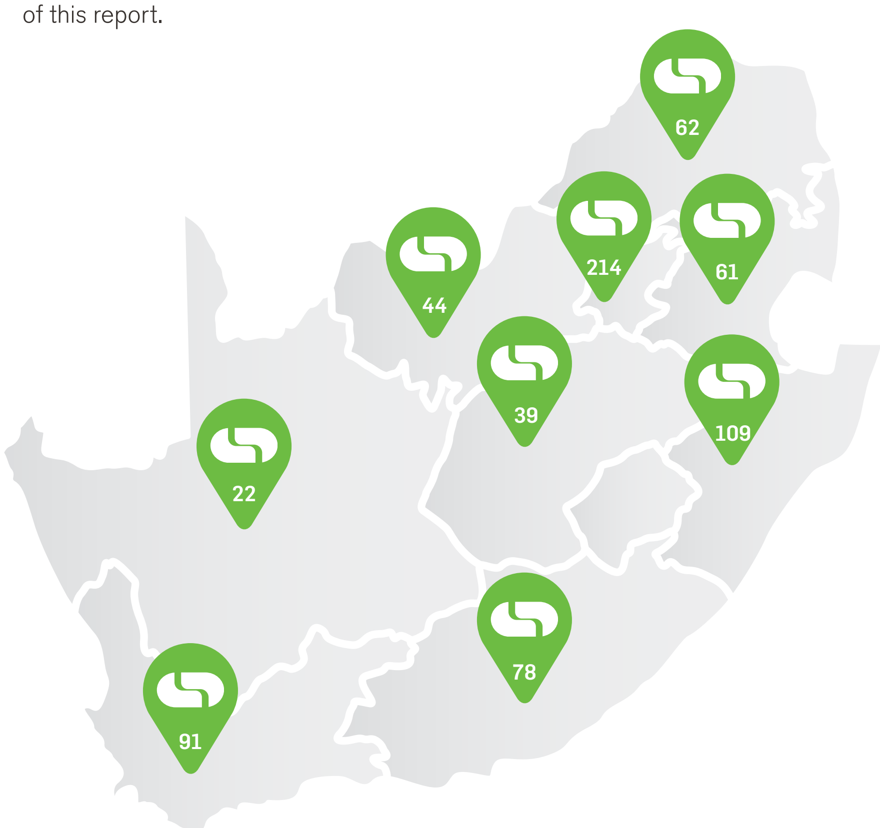
Capitec Bank's low-cost, simplified product offers revolutionised banking for the benefit of consumers and created the opportunity for consumers to access affordable credit responsibly. In this way Capitec Bank has contributed to, and will continue to contribute to, the economic welfare and development 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 11 440 jobs (2015: 10 261) and, on average, 98 new positions were created per month during the reporting period (2015: 99). 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, are detailed in chapter 5 of this report.



Corporate social investment

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 and therefore in June 2015 the Capitec Foundation was established, which is an independent non-profit organisation that incorporates the corporate social investment initiatives of Capitec Bank. 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. With this in mind 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.

The Capitec Foundation 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.

eduCate Revision Programme

The eduCate revision programme for Grade 12 learners provides learners from disadvantaged backgrounds revision tutoring in maths and science. It took place from 9 August to 27 September 2015 in all nine provinces with 5 800 learners from 116 public schools participating in the program. It is hosted annually at cinemas throughout the country in the run-up to the Grade 12 exams.

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 2016, 296 learners from 61 schools qualified for bursaries in the Western Cape Metro and Winelands districts.

The programme was also expanded to 11 schools in Queenstown in the Eastern Cape in partnership with Nelson Mandela Metropolitan University (NMMU). This year 40 Grade 10, 40 Grade 11 and 40 Grade 12 learners are participating in the programme.

We sponsor these learners in the Nelson Mandela Metropolitan University's Incubator School Programme (ISP) that is offered by its GMMDU. The ISP programme provides learners in the Queenstown district with a tablet, assisted weekly extra maths and covers their school fees for the year. The aim is to keep learners in the programme until they are in a position to access higher education with a matric pass, with new Grade 10 intakes every year.

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. They work in 10 townships with more than 1 400 (2015: 1000) learners from Grade 8 to 12 participating in the programme covering five provinces (Western Cape, KwaZulu-Natal, Gauteng, Eastern Cape and North West Province). For the past three years, 70% of participants have accessed tertiary education. We will fund Ikamva Youth with financial and other resources to expand the model to more areas.

Management programme for school leaders

Bursaries have been granted to 22 principals (2015: 20 principals) studying for a postgraduate diploma in Management Practice through the Graduate School of Business at the University of Cape Town.

Financial literacy

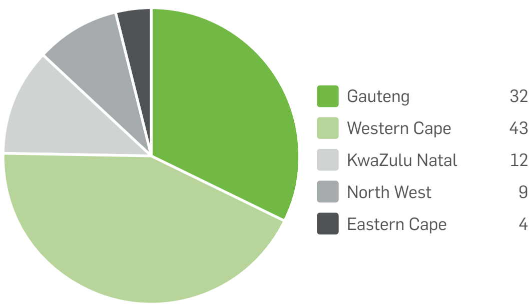
Financial life skills programme

Generic financial skills training is delivered to high school learners on our behalf by Seta-accredited suppliers.

The aim is to empower learners with basic financial literacy specifically around understanding banking credit, basic saving concepts and financial goal-setting.

The following graph sets out the proportion of learners trained per province:

NUMBER OF LEARNERS TRAINED (%)



Community support

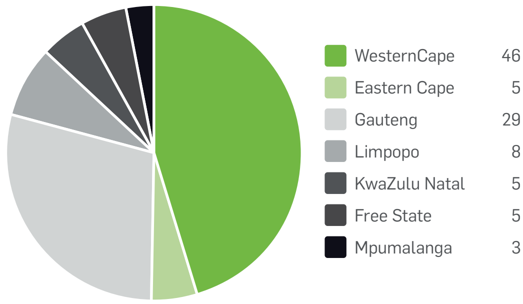
Sponsorships

We sponsor initiatives focusing on maths. This year we sponsored National Science Week and The University of Cape Town's Math 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 (%)



Suppliers

Capitec Bank's Broad-Based Black Economic Empowerment (B-BBEE) rating is measured under the Financial Sector Charter's codes of good practice. The sector code, as published on 26 November 2012 was still in force at the time of verification and was used for the purpose of establishing the bank's B-BBEE status.

The bank retained a B-BBEE status as a Level 4 contributor, following the most recent verification. Level 4 status provides the bank's suppliers with 100% recognition for preferential procurement spend.

Summary of Capitec Banks' scorecard

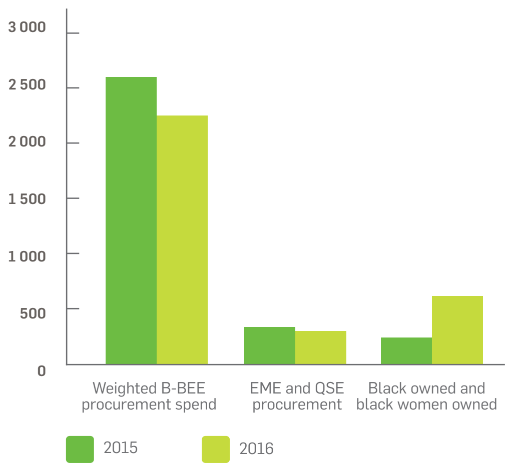
	Element	2016	2015	Change (%)
1	Ownership	**11.42**	13.32	(14)
2	Management and control	**2.93**	2.21	33
3	Employment equity	**6.19**	8.26	(25)
4	Skills development	**9.00**	3.76	139
5	Preferential procurement	**15.26**	14.06	10
6	Enterprise development	**2.09**	2.54	(20)
7	Socio-economic development	**1.15**	0.33	224
8	Empowerment financing	**12.00**	12.00	–
9	Access to financial services	**9.29**	9.68	(4)
	Total	**69.33**	**66.16**	5

Preferential procurement

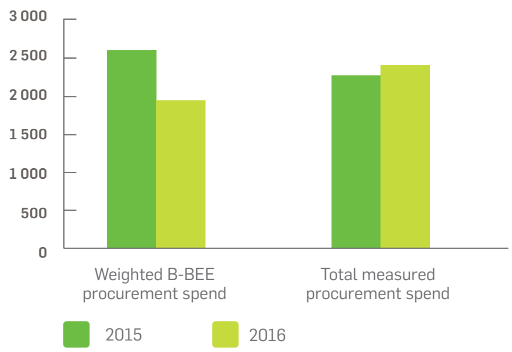
The results of the bank's preferential procurement strategy manifests in the analysis of total measured procurement value spend where the bank achieved the targets for total weighted B-BBEE procurement spend and increased its spend in all of the sub-categories:

- R297 Million (12.3% of Total Measured Procurement Spend) towards Exempted Micro Enterprise (EME) and Qualifying Small Enterprise (QSE) spend.
- R365 Million (15.2% of TMPS) towards 50% black owned business spend.
- R252 Million (10.5% of TMPS) towards 30% black women owned business spend.

Year-on-Year comparison on B-BBEE procurement spend (R'm)



Year-of-Year comparison of weighted B-BBEE procurement spend (R'm)



Empowerment financing

Capitec Bank achieved 12 points in the Targeted Investment component by reaching its allocated target of R678 million for the measurement period by providing financing for affordable housing to clients with a household income of less than R20 800 per month.

Access to financial services

The bank reached the target for the product related access component by attracting lower income (LSM 1-5) clients to take up the bank's savings account offering. The total monthly cost of operation was well below the industry standard and the bank subsequently achieved all of the available points. The take-up of the bank's mobile banking offering by the lower income clients also exceeded the industry target resulting in full recognition for this component.

The environment

South Africa, in accordance with the global focus on climate change, is committed to reducing domestic GHG emissions. 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 business 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, 29 277 MWh (2015: 27 684 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 6 792kg (2015: 7 610kg) paper and 1 498kg (2015: 469kg) tins were recycled.

Electronic equipment are disposed of and recycled by accredited third parties. In total 6 372kg (2015: 7 531kg) 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 2016.

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 2016 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 2016 reporting year

GHG Protocol scope		2016	2012 baseline
Scope 1: Direct emissions from:		**1 613**	134
Fuel used in directly controlled or owned equipment	CO_2e tonnes	**36**	1
Fuel used in directly owned or controlled vehicles	CO_2e tonnes	**51**	72
Air-conditioning and refrigeration gas refills	CO_2e tonnes	**1 526**	61
Scope 2: Indirect emissions from purchased electricity	CO_2e tonnes	**29 277**	22 971
Purchased electricity – Eskom	CO_2e tonnes	**29 277**	22 971
Total scope 1 and 2	CO_2e tonnes	**30 890**	23 105
Scope 3: Indirect emissions from:	CO_2e tonnes	**6 425**	5 091
Business travel – Rental vehicles	CO_2e tonnes	**36**	46
Business travel – Commercial airlines	CO_2e tonnes	**1 456**	1 778
Business travel – Employee-owned vehicles	CO_2e tonnes	**2 740**	2 007
Product distribution – Cash in transit	CO_2e tonnes	**1 063**	858
Paper usage	CO_2e tonnes	**1 130**	402
Total scope 1, 2 and 3		**37 315**	**28 196**

Intensity footprint

		2016		2012 baseline	
GHG Protocol scope		**Per full-time employee**	**Per m² floorspace**	**Per full-time employee**	**Per m² floorspace**
Scope 1 emissions	CO_2e tonnes	**0.03**	**0.00**	0.02	0.00
Scope 2 emissions	CO_2e tonnes	**2.42**	**0.13**	3.19	0.15
Total	**CO_2e tonnes**	**2.45**	**0.13**	**3.21**	**0.15**

The carbon footprint is not subject to independent assurance.

Although there was a 32% increase in the overall footprint between the baseline and current year emissions, there was a 24% (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, our brand essence, delivered transparently gives clients control

12

What are the financial results for the year?

The finer detail of our financial results for the financial year.

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

Statement of responsibility by the board of directors

Capitec Bank 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 29 February 2016, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with 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 integrated 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 Inc., audited the financial statements and their report is presented on page 116.

The annual financial statements set out on pages 117 to 182 were approved by the board of directors and signed on its behalf on 29 March 2016 by:

Michiel le Roux
Chairman

Gerrie Fourie
Chief executive officer

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Holdings Limited (the company), that for the year ended 29 February 2016, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are, to the best of my knowledge and belief true, correct and up to date.

Yolandé Mouton
Stellenbosch
29 March 2016

Audit committee report

Capitec Bank 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) to the extent applicable.

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

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

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

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2016 financial year.
- Approved the terms of the master agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm.
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.
- Reviewed the accounting policies and the group financial statements for the year ended 29 February 2016 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, the JSE Listings requirements, the King III Code and IFRS.
- Undertaken the prescribed functions in terms of section 94(7) of the Act, on behalf of the subsidiary companies of the group.

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

- Considered the sustainability information as disclosed in the integrated report, 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 29 March 2016, recommended the integrated report for approval by the board of directors.
- Ensured that the company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties.
- The committee recommended the internal audit charter for approval by the board and approved the annual audit plan.
- The committee met with the external auditors and with the head of the internal audit function without management being present.
- The committee satisfied itself that the group financial director has appropriate expertise and experience as required by the JSE Listings Requirement 3.84(h).

Jean Pierre Verster
Chairman
29 March 2016

Directors' report

Year ended 28 February 2016

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

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 annual report.

Share capital

No ordinary shares were issued during the year ended 29 February 2016 bringing the number of shares in issue to 115 626 991 (February 2015: 115 626 991).

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

Dividends to shareholders

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

	2016	2015
Ordinary dividend (cents per share)		
Interim	**375**	246
Final	**680**	590
Preference dividend (cents per share)		
Interim	**390.79**	380.64
Final	**404.21**	382.23

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

Subsidiaries and associates

Information relating to the company's financial interest in its subsidiaries 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.

During the year ended 29 February 2016, the following changes were effected to the board of directors: JP van der Merwe resigned on 20 March 2015 and JP Verster was appointed on 23 March 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

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

Independent auditor's report

To the shareholders of Capitec Bank Holdings Limited

Report on the Financial Statements

We have audited the consolidated and separate financial statements of Capitec Bank Holdings Limited set out on pages 117 to 182, which comprise the statement of financial position as at 29 February 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these 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 misstatement, 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 29 February 2016, 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 29 February 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited 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.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Capitec Bank Holdings Limited for 15 years.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: DG Malan
Registered Auditor
Cape Town
29 March 2016

Consolidated statement of financial position

As at 29 February 2016

		GROUP		COMPANY	
R'000	Notes	2016	2015	2016	2015
Assets					
Cash, cash equivalents and money market funds	4	**14 164 697**	11 312 479	**2 213**	31
Investments designated at fair value	5	**–**	2 663 877	**–**	–
Held-to-maturity investments	6	**3 634 710**	–	**–**	–
Term deposit investments	7	**7 188 781**	5 778 474	**–**	–
Loans and advances to clients	8	**35 759 860**	32 483 897	**1 386**	1 687
Other receivables	9	**217 372**	204 483	**8 082**	9 057
Derivative assets	10	**225 403**	35 847	**–**	–
Current income tax asset		**52 702**	37 635	**–**	–
Interest in subsidiaries	11	**–**	–	**5 843 661**	5 872 743
Property and equipment	12	**1 110 808**	848 758	**–**	–
Intangibles	13	**242 648**	238 875	**–**	–
Deferred income tax asset	14	**348 521**	312 150	**–**	–
Total assets		**62 945 502**	53 916 475	**5 855 342**	5 883 518
Liabilities					
Deposits and bonds	15	**47 940 148**	41 181 305	**–**	–
Other liabilities	16	**1 238 384**	1 107 162	**16 058**	10 813
Provisions	17	**107 905**	64 268	**–**	–
Total liabilities		**49 286 437**	42 352 735	**16 058**	10 813
Equity					
Capital and reserves					
Ordinary share capital and premium	18	**5 649 020**	5 649 071	**5 649 020**	5 649 071
Cash flow hedge reserve	19	**64 147**	7 035	**–**	–
Retained earnings		**7 772 004**	5 700 459	**16 370**	16 459
Share capital and reserves attributable to ordinary shareholders		**13 485 171**	11 356 565	**5 665 390**	5 665 530
Non-redeemable, non-cumulative, non-participating preference share capital and premium	18	**173 894**	207 175	**173 894**	207 175
Total equity		**13 659 065**	11 563 740	**5 839 284**	5 872 705
Total equity and liabilities		**62 945 502**	53 916 475	**5 855 342**	5 883 518

Consolidated Income statement

Year ended 29 February 2016

		GROUP		COMPANY	
R'000	Notes	2016	2015	2016	2015
Interest income	20	**12 473 038**	10 782 229	**128**	34
Interest expense	20	**(2 883 666)**	(2 425 702)	**–**	–
Net interest income		**9 589 372**	8 356 527	**128**	34
Loan fee income		**1 545 477**	1 245 881	**–**	–
Loan fee expense		**(690 054)**	(626 708)	**–**	–
Transaction fee income		**4 326 103**	3 672 711	**–**	–
Transaction fee expense		**(1 305 890)**	(1 064 835)	**–**	–
Net fee income		**3 875 636**	3 227 049	**–**	–
Dividend income	21	**53**	–	**1 131 864**	831 513
Net impairment charge on loans and advances to clients	22	**(4 400 637)**	(4 014 085)	**–**	–
Net movement in financial instruments held at fair value through profit or loss	23	**(1 304)**	21 271	**–**	–
Other income		**101**	305	**3 263**	2 621
Income from operations		**9 063 221**	7 591 067	**1 135 255**	834 168
Operating expenses		**(4 590 990)**	(4 030 791)	**(4 579)**	(2 604)
Loss on sale of associate	11	**–**	(886)	**–**	–
Operating profit before tax	24	**4 472 231**	3 559 390	**1 130 676**	831 564
Income tax expense	25	**(1 243 994)**	(995 791)	**(29)**	(38)
Profit for the year		**3 228 237**	2 563 599	**1 130 647**	831 526
Earnings per share (cents)					
Basic	26	**2 779**	2 209		
Diluted	26	**2 773**	2 206		

Consolidated statement of other comprehensive income

Year ended 29 February 2016

		GROUP		COMPANY	
R'000	Notes	2016	2015	2016	2015
Profit for the year		**3 228 237**	2 563 599	**1 130 647**	831 526
Cash flow hedge recognised during the year	19	**189 037**	(88 211)	**–**	–
Cash flow hedge reclassified to profit and loss for the year	19	**(111 163)**	(14 329)	**–**	–
Cash flow hedge before tax		**77 874**	(102 540)	**–**	–
Income tax relating to cash flow hedge	19	**(20 762)**	28 710	**–**	–
Other comprehensive income that will be reclassified to profit or loss for the year net of tax		**57 112**	(73 830)	**–**	–
Total comprehensive income for the year		**3 285 349**	2 489 769	**1 130 647**	831 526

Consolidated statement of changes in equity

Year ended 29 February 2016

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 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	35	136 501	–	–	(277 419)	(140 918)
Proceeds on settlement of employee share options	35	–	–	–	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
Total comprehensive income for the year		**–**	**–**	**57 112**	**3 228 237**	**3 285 349**
Ordinary dividend		**–**	**–**	**–**	**(1 115 810)**	**(1 115 810)**
Preference dividend		**–**	**–**	**–**	**(16 064)**	**(16 064)**
Employee share option scheme: value of employee services		**–**	**–**	**–**	**23 163**	**23 163**
Shares issued and acquired for employee share options at cost	35	**–**	**–**	**–**	**(100 820)**	**(100 820)**
Proceeds on settlement of employee share options	35	**–**	**–**	**–**	**33 310**	**33 310**
Tax effect on share options		**–**	**–**	**–**	**18 402**	**18 402**
Shares repurchased		**–**	**(33 281)**	**–**	**1 127**	**(32 154)**
Other		**(51)**	**–**	**–**	**–**	**(51)**
Balance at 29 February 2016		**5 649 020**	**173 894**	**64 147**	**7 772 004**	**13 659 065**
Notes		18	18	19		

Consolidated statement of changes in equity (continued)

Year ended 29 February 2016

COMPANY (R'000)	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
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 repurchased)	136 501	(51 794)	1 017	85 724
Balance at 28 February 2015	5 649 071	207 175	16 459	5 872 705
Total comprehensive income for the year	**–**	**–**	**1 130 647**	**1 130 647**
Ordinary dividend	**–**	**–**	**(1 115 799)**	**(1 115 799)**
Preference dividend	**–**	**–**	**(16 064)**	**(16 064)**
Shares issued/(Shares repurchased)	**–**	**(33 281)**	**1 127**	**(32 154)**
Other	**(51)**	**–**	**–**	**(51)**
Balance at 29 February 2016	**5 649 020**	**173 894**	**16 370**	**5 839 284**
Notes	18	18		

Consolidated statement of cash flows

Year ended 29 February 2016

		GROUP		COMPANY	
R'000	Notes	2016	2015	2016	2015
Cash flow from operating activities					
Cash flow from operations	32	**8 445 377**	7 712 474	**1 137 605**	833 129
Income taxes paid	33	**(1 297 792)**	(1 036 707)	**(29)**	(28)
		7 147 585	6 675 767	**1 137 576**	833 101
Cash flow from investing activities					
Purchase of property and equipment	12	**(579 854)**	(288 205)	**–**	–
Proceeds from disposal of property and equipment		**23 136**	15 649	**–**	–
Purchase of intangible assets	13	**(124 208)**	(125 476)	**–**	–
Proceeds from sale of associate/Investment in subsidiaries		**–**	964	**29 083**	(86 266)
Investment in term deposit investments	7	**(8 183 090)**	(7 269 515)	**–**	–
Redemption of term deposit investments	7	**6 772 783**	1 491 041	**–**	–
Acquisition of held-to-maturity investments	6	**(4 182 192)**	–	**–**	–
Redemption of held-to-maturity investments	6	**547 482**	–	**–**	–
Acquisition of investments at fair value through profit or loss and money market unit trusts		**(89 147)**	(2 668 536)	**–**	–
Disposal of investments at fair value through profit or loss and money market unit trusts		**2 747 179**	4 777 003	**–**	–
		(3 067 911)	(4 067 075)	**29 083**	(86 266)
Cash flow from financing activities					
Dividends paid	34	**(1 132 281)**	(832 367)	**(1 132 272)**	(832 534)
Preference shares redeemed	18	**(32 154)**	(50 777)	**(32 154)**	(50 777)
Ordinary shares issued	18	**(51)**	136 501	**(51)**	136 501
Realised loss on settlement of employee share options less participants' contributions	35	**(67 510)**	(221 143)	**–**	–
		(1 231 996)	(967 786)	**(1 164 477)**	(746 810)
Net increase in cash and cash equivalents		**2 847 678**	1 640 906	**2 182**	25
Cash and cash equivalents at the beginning of the year		**11 304 239**	9 663 333	**31**	6
Cash and cash equivalents at the end of the year	4	**14 151 917**	11 304 239	**2 213**	31

Notes to the annual financial statements

Year ended 29 February 2016

1. General Information

1.1 Nature of business

The company's main business is 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 R3 228.2 million (2015: R2 563.6 million).

1.3 Directors and secretary

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

Basis of preparation

These policies comply with International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRIC), the JSE Listings Requirements and the requirements of the Companies Act.

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.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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, 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.

Acquisition costs are expensed as incurred.

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 re-measured 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.

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 instruments designated at fair value through profit or loss

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

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, being the date on which the 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) Held-to-maturity investments

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

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

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

(c) Loans and advances

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

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

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

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

They arise when the 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.

(d) Fixed and term notice deposits

Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the 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 to note 2.3.4 with reference to hedging instruments.

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

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

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

The 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 in cash flows of hedged items.

Treatment of economic hedges classified as fair value through profit or loss
Changes in the fair value of these derivatives classified as fair value through profit 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 19.

2.3.5 Resale agreements.

Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of 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 are carried at cost net of impairment.

2.6 Current tax

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

2.7 Deferred tax

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

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

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

2.8 Property and equipment

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 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% (2015: 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 on the date of the transaction. Foreign currency balances are translated into rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

2.14 Revenue recognition

2.14.1 Interest income and expense

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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 29.8 and 29.9.

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

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

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

Certain effective new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2016 or later periods but which the group has not early adopted, as follows:

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

Management is in the process of assessing the impact of these amendments and standards on the reported results of the 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 to note 2.4 for the accounting policy regarding the impairment of advances and note 29.1 for credit risk management.

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

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

3.2 Segment reporting

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

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

3.3 Contingent liability

In the annual financial statements for 2013, 2014 and 2015 the board reported that a notice had been received from the NCR alleging contraventions of the NCA. During February 2016 we became aware of another referral made by the NCR to the National Consumer Tribunal, which referral is also being contested by Capitec Bank. Refer to note 36 for more detail.

3.4 Fair values

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

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

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

- *Market risk premium*
  A market risk premium was applied to the equity element in the WACC. This addresses the opportunity cost of other similar available investments on a risk and reward basis, industry cyclicality and the cost of regulation as banking is a regulated industry.
- *Beta*
  The beta used was set prudently with due regard to the five-year beta, calculated on a daily average basis using JSE ALSI data.
- *Debt to equity ratio*
  Equity is regarded as the more expensive component of the WACC. A shift in the assumed debt to equity ratio impacts the valuation accordingly.
- *Marketability discount overlay*
  A marketability discount was applied to reflect the relative illiquidity of the investment and the impact of disconnecting the advances book from the supporting bank infrastructure.

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

4. Cash, cash equivalents and money market funds

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Cash on hand[(1)]	**2 648 884**	2 333 031	**–**	–
Bank balances	**9 633 755**	7 605 291	**2 213**	31
Resale agreements[(2)]	**805 552**	503 787	**–**	–
Short-term corporate bills	**–**	100 649	**–**	–
Treasury bills	**248 329**	–	**–**	–
Central bank balances				
Mandatory reserve deposits with central bank[(3)]	**815 397**	761 481	**–**	–
Cash and cash equivalents	**14 151 917**	11 304 239	**2 213**	31
Money market unit trusts[(4)]	**12 780**	8 240	**–**	–
Total cash, cash equivalents and money market funds	**14 164 697**	11 312 479	**2 213**	31
Maximum exposure to credit risk	**14 164 697**	11 312 479	**2 213**	31
Current	**14 164 697**	11 312 479	**2 213**	31

(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 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

5. Investments designated at fair value

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Interest-bearing instruments[1]				
Balance at the beginning of the year	**2 663 877**	4 757 036	–	–
Additions	**84 607**	2 668 536	–	–
Disposals	**(2 747 180)**	(4 782 966)	–	–
Fair value adjustment – Interest rate risk[2]	**(1 304)**	21 271	–	–
Total investments at fair value	**–**	2 663 877	–	–
Maximum exposure to credit risk[3]	**–**	2 663 877	–	–
Current	**–**	2 663 877	–	–

(1) Interest-bearing instruments are unlisted instruments with a maturity greater than three months from date of acquisition.
(2) The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 29.9.
(3) Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. This group of financial assets and their performance is managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.

6. Held-to-maturity investments

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Interest-bearing instruments[1]				
Balance at the beginning of the year	**–**	–	–	–
Additions	**4 182 192**	–	–	–
Maturities	**(547 482)**	–	–	–
Total investments at amortised cost[2]	**3 634 710**	–	–	–
Maximum exposure to credit risk[3]	**3 634 710**	–	–	–
Current	**3 634 710**	–	–	–

(1) Interest-bearing instruments are unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises South African National Treasury bills (treasury bills), 89% of the balance and investments in Negotiable Certificates of Deposits issued by various banks, 11% (2015: 0%) of the balance. (Refer to note 29.1 for ratings)
(2) The Liquid Asset Requirement of R1 630.8 million (2015: R1 524.7 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills. The intention is to hold all treasury bills to full maturity.
(3) The full balance is current and is the maximum exposure to credit risk.

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

7. Term deposit investments

Term deposit investments				
Balance at the beginning of the year	5 778 474	–	–	–
Additions	8 183 090	7 269 515	–	–
Disposals	(6 772 783)	(1 491 041)	–	–
Total term deposit investments (1)(2)	**7 188 781**	**5 778 474**	**–**	**–**

(1) The balance is the maximum exposure to credit risk. All balances are due by banks and have original maturity dates of more than 3 months but contractually less than 1 year. Investments comprise term-to-notice and fixed term instruments. (Refer to note 29.1 for ratings)

(2) The full balance is current.

8. Loans and advances to clients

Maturity analysis				
Demand to one month	1 954 994	1 459 335	294	25
One to three months	2 189 002	1 728 706	26	49
Three months to one year	8 742 187	7 223 538	52	274
More than one year	28 586 451	26 260 041	1 014	1 339
Total	41 472 634	36 671 620	1 386	1 687
Deferred loan fee income	(581 169)	(330 353)	–	–
Gross loans and advances	40 891 465	36 341 267	1 386	1 687
Allowance for impaired loans and advances	(5 131 605)	(3 857 370)	–	–
Net loans and advances to clients(1)(2)	**35 759 860**	**32 483 897**	**1 386**	**1 687**
Analysis of net loans and advances by status				
Gross	35 233 859	32 363 296	1 386	1 687
Impairment	(2 697 102)	(2 128 071)	–	–
Current(3)	**32 536 757**	**30 235 225**	**1 386**	**1 687**
Provision %	7.7	6.6	–	–
Gross	1 817 885	1 130 383	–	–
Impairment	(287 644)	(206 317)	–	–
Current – rescheduled from current not rehabilitated(9)	**1 530 241**	**924 066**	**–**	**–**
Provision %	15.8	18.3	–	–
Gross	1 542 283	883 409	–	–
Impairment	(758 244)	(366 671)	–	–
Current – rescheduled from arrears not rehabilitated (4)(9)	**784 039**	**516 738**	**–**	**–**
Provision %	49.2	41.5	–	–
Gross	2 297 438	1 964 179	–	–
Impairment	(1 388 615)	(1 156 311)	–	–
Arrears(5)	**908 823**	**807 868**	**–**	**–**
Provision %	60.4	58.9	–	–
Credit quality of loans and advances(6)(7)				
Low risk	8 734 139	8 361 424	–	–
Medium risk	21 451 881	20 770 785	–	–
High risk	6 865 724	4 361 469	–	–
Current loans	**37 051 744**	**33 493 678**	**–**	**–**

8. Loans and advances to clients *(continued)*

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Ageing of gross arrears				
< 60 days	**1 971 940**	1 654 490	**–**	–
60 – 90 days	**325 498**	309 689	**–**	–
	2 297 438	1 964 179	**–**	–
Movement on impairment allowance				
Unidentified Impairments	**2 701 059**	2 319 506	**–**	–
Identified Impairments	**1 156 311**	1 317 670	**–**	–
Opening balance	**3 857 370**	3 637 176	**–**	–
Unidentified Impairments	**1 041 931**	381 553	**–**	–
Identified Impairments	**232 304**	(161 359)	**–**	–
Movement	**1 274 235**	220 194	**–**	–
Unidentified Impairments	**3 742 990**	2 701 059	**–**	–
Identified Impairments	**1 388 615**	1 156 311	**–**	–
Closing balance	**5 131 605**	3 857 370	**–**	–
Exposure to credit risk				
Loans and advances to clients	**41 472 634**	36 671 620	**1 386**	1 687
Conditionally revocable retail loan commitments(8)	**203 515**	469 496	**–**	–
Maximum exposure to credit risk	**41 676 149**	37 141 116	**1 386**	1 687

(1) Loans and advances comprise unsecured loans to individuals.
(2) Accrued interest receivable of R232.7 million is included in loans and advances (2015: R180.0 million).
(3) Loans and advances not past due on which a portfolio impairment allowance has been raised are treated as current.
(4) These are loans and advances relating to clients that were in arrears and were subsequently rescheduled in line with approved credit policy rules on forebearance. If these loans are up-to-date six months post rescheduling, they are reclassified to current for impairment allowance purposes.
(5) The definition of arrears and past due loans and advances is the same. Past due loans and advances reflect all a client's outstanding balances, where one or more instalments (or part of an instalment [more than 5% thereof] on any of the client's loans) remains unpaid, measured against the contractual payment date, that is from one day past the contractual payment date to 90 days. The definition excludes loans with a handed over status which are written off, as are all outstanding client balances with instalments unpaid more than 90 days.
(6) The credit quality of performing loans is based on probability of default (PD) rates.
(7) The lower-risk clients qualify for longer-term, lower interest rate loan combinations, while the higher-risk clients are limited to shorter-term, higher interest rate products. The interest rate on a loan can be decreased by selecting a term shorter than the maximum term for which the client qualifies.
(8) Conditionally revocable retail loan commitments totalling R203.5 million (2015: R469.5 million) are not included in the maturity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The 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 34% (2015: 23%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future draw downs must also occur within the month.
(9) Clients are deemed to be rehabilitated once they have made six consecutive contractual payments.

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

9. Other receivables

Deposits	**28 707**	5 026	**–**	–
Accrued income[1]	**93 044**	105 151	**7 779**	8 798
Prepayments[2]	**95 621**	94 306	**303**	259
Total other receivables	**217 372**	204 483	**8 082**	9 057
Current	**215 183**	198 544	**8 082**	9 057
Non-current	**2 189**	5 939	**–**	–

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

10. Derivative assets

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

(1) Refer to notes 41 and 42 for more information on derivatives.

11. Interest in subsidiaries

Interest in subsidiaries				
Investment in unlisted subsidiaries at cost[1]	**–**	–	**5 827 322**	5 860 603
Loans to subsidiaries[2]	**–**	–	**16 339**	12 140
Total interest in subsidiaries	**–**	–	**5 843 661**	5 872 743

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

Interest in associate[3]				
Opening balance	**–**	1 850	**–**	913
Share of profit	**–**	–	**–**	–
Sale of interest in associate	**–**	(1 850)	**–**	(913)
Closing balance	**–**	–	**–**	–

(1) All holdings are in the ordinary and preference share capital of the subsidiaries.
(2) Loans to subsidiaries bear interest as agreed by the parties from time to time and no fixed repayment terms have been set. Loans are managed as part of the investment in subsidiaries.
(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.

R'000	Land and buildings	Computer equipment	Office equipment and vehicles	Total

12. Property and equipment

2016

Opening net book value	31 294	402 709	414 755	848 758
Additions	67 859	304 958	207 037	579 854
Disposals	–	(9 337)	(2 821)	(12 158)
Depreciation charge	(547)	(166 369)	(138 730)	(305 646)
Net book value at the end of the year	98 606	531 961	480 241	1 110 808
Cost	99 153	1 228 916	1 202 715	2 530 784
Accumulated depreciation	(547)	(696 955)	(722 474)	(1 419 976)
Net book value at the end of the year	98 606	531 961	480 241	1 110 808
Non-current	98 606	531 961	480 241	1 110 808

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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

13. Intangibles

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Computer software[(1)]				
Cost	523 652	406 237	–	–
Accumulated amortisation	(284 777)	(204 918)	–	–
Opening net book value	238 875	201 319	–	–
Additions	124 208	125 476	–	–
Scrappings	(22 904)	(2 016)	–	–
Amortisation charge	(97 531)	(85 904)	–	–
Net book value at the end of the year	242 648	238 875	–	–
Cost	604 969	523 652	–	–
Accumulated amortisation	(362 321)	(284 777)	–	–
Net book value at the end of the year	242 648	238 875	–	–
Non-current	242 648	238 875	–	–

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

14. Deferred income tax asset

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre-payments	Total
2016					
Balance at the beginning of the year	361 772	(2 833)	(35 703)	(11 086)	312 150
Income statement charge	55 017	–	(1 797)	(2 517)	50 703
Debited directly to equity	6 430	–	–	–	6 430
Debited to equity through other comprehensive income	–	(20 762)	–	–	(20 762)
Balance at the end of the year [(1)]	423 219	(23 595)	(37 500)	(13 603)	348 521
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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Current	237 868	235 115	–	–
Non-current	110 653	77 035	–	–

(1) Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28 % (2015: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

15. Deposits and bonds

By maturity				
Within one month	25 042 666	20 087 292	–	–
One to three months	3 350 970	2 031 174	–	–
Three months to one year	6 770 557	6 037 694	–	–
More than one year	12 775 955	13 025 145	–	–
Total deposits and bonds(1)	47 940 148	41 181 305	–	–
By nature				
Retail funding				
Retail savings	24 152 425	19 297 567	–	–
Retail fixed deposits	13 634 429	10 731 192	–	–
	37 786 854	30 028 759	–	–
Institutional bond and other funding (3)				
Subordinated debt – unlisted bonds	1 008 466	1 010 313	–	–
Subordinated debt – listed bonds (2)	1 928 779	1 927 088	–	–
Listed senior bonds(2)	4 351 702	4 891 458	–	–
Unlisted negotiable instruments	1 296 456	1 782 273	–	–
Wholesale	1 411 592	1 301 659	–	–
SARB settlement balance	156 299	239 755	–	–
	10 153 294	11 152 546	–	–
	47 940 148	41 181 305	–	–
Amounts payable on maturity of the funding(4)	52 253 412	45 393 941	–	–

Subordinated debt analysis

Description	Nominal amount	Term	Rate
Subordinated debt – unlisted bonds – floating rate	R 250 million	12 year	
• First seven years			3-month JIBAR plus 6.75%
• Last five years if not called by the bank			3-month JIBAR plus 8.00%
Subordinated debt – unlisted bonds – floating rate	R 200 million	12 year	
• First seven years			3-month JIBAR plus 5.75%
• Last five years if not called by the bank			3-month JIBAR plus 7.00%
Subordinated debt – unlisted bonds – floating rate	R 44 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R 500 million	7 year	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R 250 million	7 year	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R 150 million	7 year	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R 175 million	7 year	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R 400 million	7 year	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R 350 million	7 year	3-month JIBAR plus 4.60%
Subordinated debt – listed bonds – floating rate	R 572 million	7 year	3-month JIBAR plus 4.49%

(1) All deposits and bonds are unsecured.
(2) Comprises notes listed on Capitec Bank's DMTN programme registered on the JSE's interest rate board.
(3) Institutional bond and other funding issued at variable rates is hedged through interest rate swap agreements as set out in notes 19 and 42. The nominal value of hedged funding consists of:

Subordinated debt – unlisted bonds	*R994 000 million*
Subordinated debt – listed bonds	*R1 122 000 million*
Listed senior bonds	*R950 000 million*
Unlisted negotiable instruments	*R455 000 million*
Wholesale	*R848 849 million*

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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

16. Other liabilities

Trade payables	**474 918**	334 162	**4 487**	23
Dividends payable	**10 382**	10 790	**10 382**	10 790
Accruals	**656 806**	610 248	**1 189**	–
Share appreciation rights (note 40)	**96 278**	129 834	**–**	–
Derivatives (notes 41 and 42)	**–**	22 128	**–**	–
Total other liabilities	**1 238 384**	1 107 162	**16 058**	10 813
Current	**922 459**	843 041	**16 058**	10 813
Non-current	**315 925**	264 121	**–**	–

17. Provisions

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

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

18. Share capital and premium

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	**5 000**	5 000	**5 000**	5 000
Non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Loss absorbent preference shares (conversion) [(1)]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Loss absorbent preference shares (write-off) [(1)]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
	8 000	8 000	**8 000**	8 000
Issued [(2)]				
115 626 991 (2015: 115 626 991) shares of R0.01 each at par	**1 156**	1 156	**1 156**	1 156
Share premium	**5 647 864**	5 647 915	**5 647 864**	5 647 915
Ordinary share capital and premium	**5 649 020**	5 649 071	**5 649 020**	5 649 071
1 926 504 (2015: 2 295 211) shares of R0.01 each at par	**19**	23	**19**	23
Share premium	**173 875**	207 152	**173 875**	207 152
Non-redeemable, non-cumulative, non-participating preference share capital and premium [(3)]	**173 894**	207 175	**173 894**	207 152
Total issued share capital and premium [(3)(4)(5)]	**5 822 914**	5 856 246	**5 822 914**	5 856 246

(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. 368 707 (2015: 573 803) preference shares with a value of R33.3 million (par and premium) (2015: R51.8 million) 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. At year-end, 32.85% (2015: 20.00%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*

(4) *Refer to note 35 for detail regarding the issue of shares to settle share options. During the year a loss of R67.5 million (R49.1 million after tax) (2015: R221.1 million, R175.6 million after tax) was realised on settlement of share options as reflected in the statement of changes in equity.*

(5) *5 781 350 (2015: 6 223 432) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares (including the compulsary convertible and write-off classes) that were placed under the control of the directors until the next annual general meeting remained at year-end.*

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

19. Cash flow hedge reserve

R'000	Group 2016	Group 2015	Company 2016	Company 2015
Balance at the beginning of the year	7 035	80 865	–	–
Amount recognised in comprehensive income during the year	189 037	(88 211)	–	–
Amount reclassified from comprehensive income to profit and loss for the year	(111 163)	(14 329)	–	–
	84 909	(21 675)	–	–
Deferred tax recognised in comprehensive income during the year	(20 762)	28 710	–	–
Balance at the end of the year (1)	64 147	7 035	–	–

(1) The hedging reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items comprise floating rate DMTN bonds, a bilateral US$ denominated floating rate loan, unlisted floating rate subordinated debt, a Rand denominated bi-lateral loan and negotiable floating rate notes (FRN's). Refer to note 42 for additional disclosure.

20. Net interest income

R'000	Group 2016	Group 2015	Company 2016	Company 2015
Loans and advances to clients	11 289 832	10 040 370	–	–
Non-bank money market placements	315	144	128	34
Money market funds and term deposit investments	924 659	524 663	–	–
Treasury bills	13 695	20 827	–	–
Bank balances	2 311	7 564	–	–
Resale agreements	7 920	4 980	–	–
Debentures	3 652	18 322	–	–
Interest-bearing instruments	230 654	165 359	–	–
Interest income (1)	12 473 038	10 782 229	128	34
Retail savings	(950 439)	(684 513)	–	–
Retail fixed deposits	(926 543)	(720 008)	–	–
Other unlisted wholesale	(133 212)	(118 432)	–	–
Subordinated debt	(342 477)	(326 249)	–	–
Domestic Medium Term Note	(398 829)	(437 327)	–	–
Negotiable deposits	(130 911)	(139 173)	–	–
Other	(1 255)	–	–	–
Interest expense	(2 883 666)	(2 425 702)	–	–
Net interest income	9 589 372	8 356 527	128	34

(1) Included in interest income is R86.5 million (2015: R73.0 million) with respect to interest income accrued on loans and advances in arrears.

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

21. Dividend income

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Ordinary dividends	–	–	1 115 800	814 004
Preference dividends	–	–	16 064	17 510
Subsidiaries	–	–	1 131 864	831 514
Investments at fair value through profit or loss	53	–	–	(1)
Dividend income	53	–	1 131 864	831 513

22. Net impairment charge on loans and advances to clients

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Bad debts	3 980 854	4 395 602	–	–
Movement in impairment allowance	1 274 235	220 194	–	–
Bad debts recovered	(854 452)	(601 711)	–	–
Net impairment charge	4 400 637	4 014 085	–	–

23. Net movement in financial instruments held at fair value

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Change in fair value due to risk factors[1]	(1 304)	21 271	–	–

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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

24. Operating profit before tax

The following items are included in operating profit before tax:

Profit on disposal of equipment	**(10 978)**	(2 994)	**–**	–
Loss on scrapping of intangibles	**22 904**	2 016	**–**	–
Depreciation on fixed assets	**305 646**	282 043	**–**	–
Amortisation of computer software	**97 531**	85 904	**–**	–
	415 103	366 969	**–**	–
Advertising and marketing	**170 360**	157 047	**1 222**	1 265
Bank charges	**206 121**	175 472	**–**	1
Consumables	**166 086**	141 634	**138**	56
Communications	**139 702**	137 517	**–**	–
Operating lease rentals				
Land and buildings	**343 886**	291 592	**–**	–
Office equipment	**2 188**	3 302	**–**	–
	346 074	294 894	**–**	–
Income from subletting	**(2 707)**	(4 559)	**–**	–
Auditors' remuneration				
Audit fees – current year	**4 116**	3 788	**2**	2
Other services	**464**	448	**–**	–
	4 580	4 236	**2**	2
Employee costs				
Salaries and bonus costs	**2 228 554**	1 913 595	**–**	–
Equity-settled share-based payment	**23 163**	13 105	**–**	–
Cash-settled share appreciation rights	**102 512**	160 137	**–**	–
Social security cost	**53 316**	36 273	**–**	–
Training cost	**57 613**	47 022	**–**	–
Training refund	**(4 163)**	(3 343)	**–**	–
	2 460 995	2 166 789	**–**	–

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

25. Income tax expense

Current tax	**1 294 697**	1 079 852	**29**	38
Deferred tax	**(50 703)**	(84 061)	**–**	–
Income tax expense	**1 243 994**	995 791	**29**	38
Effective tax rate	**28**	28	**–**	**–**

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

Operating profit before tax	**4 472 231**	3 559 390	**1 130 676**	831 564
Tax calculated at a tax rate of 28%	**1 252 225**	996 629	**316 589**	232 838
Adjustments for prior periods	**(586)**	221	**29**	–
Income not subject to tax	**(2 026)**	(2 396)	**(316 922)**	(232 800)
Expenses not deductible for tax purposes	**512**	2 536	**333**	–
Allowances not in income statement	**(5 883)**	(1 206)	**–**	–
Movement in unutilised tax losses	**(248)**	7	**–**	–
Income tax expense	**1 243 994**	995 791	**29**	38
Estimated tax losses at year-end available for utilisation against future taxable income	**10 895**	11 783	**–**	–
Net calculated tax losses carried forward[(1)]	**10 895**	11 783	**–**	–
Tax relief calculated at current tax rates	**3 051**	3 299	**–**	–

(1) The utilisation of the tax losses is dependent on sufficient future taxable income being earned.

R'000	GROUP 2016	2015

26. Earnings per share attributable to ordinary shareholders

R'000	2016	2015
Net profit after tax	**3 228 237**	2 563 599
Preference dividend	**(16 064)**	(17 510)
Discount on repurchase of preference shares	**1 127**	1 017
Net profit after tax attributable to ordinary shareholders	**3 213 300**	2 547 106
Weighted average number of ordinary shares in issue (thousands)	**115 627**	115 300
Adjustment for:		
Exercise of share options	**238**	149
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**115 865**	115 449
Basic earnings per share (cents)(1)	**2 779**	2 209
Diluted earnings per share (cents)(2)	**2 773**	2 206

(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.

27. Headline earnings per share attributable to ordinary shareholders

R'000	2016	2015
Net profit attributable to ordinary shareholders	**3 213 300**	2 547 106
Non-headline items		
Profit on disposal of property and equipment	**(10 978)**	(2 994)
Income tax charge – property and equipment	**3 074**	838
Loss on scrapping of intangible assets	**22 904**	2 016
Income tax charge – intangible assets	**(6 413)**	(564)
Loss on sale of associate	**–**	886
Headline earnings	**3 221 887**	2 547 288
Basic headline earnings per share (cents)	**2 787**	2 209
Diluted headline earnings per share (cents)	**2 781**	2 206

28. Dividends

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

R'000	DPS	R'000 Rand	Declared	LDT	Date Paid
2016					
Ordinary dividend					
Interim	**375**	**433 601**	**28 Sep 2015**	**16 Oct 2015**	**26 Oct 2015**
Final[(1)]	**680**	**786 264**	**29 Mar 2016**	**15 Apr 2016**	**25 Apr 2016**
Preference dividend					
Interim	**390.79**	**8 277**	**28 Aug 2015**	**17 Sep 2015**	**28 Sep 2015**
Final	**404.21**	**7 820**	**29 Feb 2016**	**16 Mar 2016**	**29 Mar 2016**
2015					
Ordinary dividend					
Interim	246	283 633	25 Sep 2014	17 Oct 2014	27 Oct 2014
Final	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

(1) The directors declared a final dividend of 680 cents per share (2015: 590 cents per share) in respect of 2016 on 29 March 2016 amounting to a dividend of R786.3 million (2015: R682.2 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 2017, which is in line with recommended accounting practice.

29. 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 sub-committees comprising executives and senior management:

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

The 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 29.8.

29.1 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 8.

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

The maximum capital advanced in terms of any one loan is R250 000 (2015: R200 000). At balance sheet date the number of outstanding loans was 1 485 081 (2015: 1 078 398).

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, 6 and 7). 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.

29.1 Credit Risk (continued)

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

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Total carrying amount
2016						
Cash on hand	4	–	2 648 884	–	–	2 648 884
Bank balances[(1)]	4	–	9 631 419	–	2 336	9 633 755
Resale agreements[(4)]	4	–	–	–	805 552	805 552
Central bank balances[(3)]	4	–	815 397	–	–	815 397
Treasury bills (<3 months)	4	–	248 329	–	–	248 329
Money market funds[(2)]	4	–	–	–	12 780	12 780
Treasury bills (> 3 months)	6	–	3 218 060	–	–	3 218 060
Negotiable certificates of deposit (> 3 months)	6	150 650	266 000	–	–	416 650
Term deposit investments	7	1 933 518	4 888 710	–	366 553	7 188 781
Derivative assets	41, 42	213 695	11 708	–	–	225 403
		2 297 863	21 728 507	–	1 187 221	25 213 591
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)]	4	–	–	–	503 787	503 787
Short-term corporate bills	4	–	–	–	100 649	100 649
Central bank balances[(3)]	4	–	761 481	–	–	761 481
Money market funds[(2)]	4	–	–	–	8 240	8 240
Treasury bills (> 3 months)	5	–	2 562 436	–	–	2 562 436
Negotiable certificates of deposit (> 3 months)	5	–	101 441	–	–	101 441
Term deposit investments	7	1 498 910	4 279 565	–	–	5 778 475
Derivative assets	41, 42	23 894	11 953	–	–	35 847
		3 669 103	15 508 885	–	612 690	19 790 678

(1) The bank balances were with 8 institutions (2015: 8), with the maximum exposure to one institution being R5 013 million (2015: R3 242 million)
(2) Money market funds consist of money market unit trust and corporate money market investments. The placements were with 5 institutions (2015: 5).
(3) All central bank balances are with the SARB and include debentures and the mandatory reserve deposit requirement.
(4) As part of the resale agreements, the group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to R824.1 million (2015: R513.9 million) of which Rnil have been sold or repledged.

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

29.2 Interest rate risk (continued)

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 pays a fixed rate of interest on its fixed-term retail deposits. Bonds and wholesale deposit liabilities comprise a mix of floating and fixed rate instruments.

Floating rate bond and wholesale deposit liabilities may be hedged using interest rate swaps, which mitigate the impact that changing market interest rates can have on annual earnings. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt, thereby reducing fluctuations in future cash flow commitments. Under the terms of interest rate swaps, the 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 (2015) for a 200 basis point decrease and a decline in value of R25.6 million (2015) for a 200 basis point increase are excluded, as the contractual terms of these instruments have fixed rate cash flows and they are not actively traded.
- The impact on other comprehensive income reflects the day one change in the valuation of interest rate cash flow hedges.

	Impact on Income Statement				Impact on Equity			
	2016		2015		2016		2015	
200 basis points R'000	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**
Increase	**(25 482)**	**(18 347)**	(5 458)	(3 930)	**124 353**	**89 534**	204 416	147 179
Decrease	**25 482**	**18 347**	5 458	3 930	**(124 353)**	**(89 534)**	(204 416)	(147 179)

29.3 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts.

Wholesale loans and deposits (refer note 15) include a foreign denominated loan. The currency exposure is fully hedged using a cross currency swap (refer note 42).

29.4 Other market risk

There is no exposure to other types of pricing risk.

29.5 Liquidity risk

The group manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by ALCO in terms of an approved Asset and Liability Management (ALM) policy. The maturity profile reflects the deliberate strategy of funding longer term assets with a significant portion of long term funding with limited use of core call deposit funding. Our conservative approach at times results in the holding of cash in excess of immediate operational requirements. Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due.

The table below analyses the 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 to note 36.
- conditionally revocable retail loan commitments totalling R203.5 million (2015: R469.5 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 34% (2015: 23%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future draw downs must also occur within the month.
- adjustments to loans and advances to clients relate to initiation fee income.
- non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

29.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[1][3] (discounted cash flows) R'000	Note	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment[4]	Total
2016							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	815 397	–	–	–	–	815 397
Cash and cash equivalents – banks	4	9 829 613	3 539 220	–	–	–	13 368 833
Money markets unit trusts – corporate other	4	12 780	–	–	–	–	12 780
Held-to-maturity investments – sovereigns and banks[5]	6	300 000	1 164 862	2 259 519	–	–	3 724 381
Term deposit investments	7	507 685	3 120 278	3 760 798	–	–	7 388 761
Loans and advances to clients – retail personal	8	3 000 361	4 222 011	16 606 386	45 072 612	(581 169)	68 320 201
Loans and advances to clients – corporate other	8	11 448	–	–	–	–	11 448
Other receivables	9	89 133	5 437	–	27 181	–	121 751
Derivative assets	10	(1 037)	1 159	6 428	263 048	–	269 598
Current income tax asset		–	–	52 702	–	–	52 702
Undiscounted assets		14 565 380	12 052 967	22 685 833	45 362 841	(581 169)	94 085 852
Adjustments for undiscounted assets		(1 062 175)	(2 116 768)	(8 097 379)	(16 530 021)	–	(27 806 343)
Discounted assets							
Loan impairment provision	8	(496 738)	(224 566)	(811 650)	(3 598 651)	–	(5 131 605)
Total discounted assets		13 006 467	9 711 633	13 776 804	25 234 169	(581 169)	61 147 904
Undiscounted liabilities							
Deposits and bonds	15	25 079 370	3 568 686	7 750 131	15 855 225	–	52 253 412
Trade and other payables	16	639 192	263 104	20 163	143 018	172 907	1 238 384
Provisions	17	–	–	–	107 905	–	107 905
Undiscounted liabilities		25 718 562	3 831 790	7 770 294	16 106 148	172 907	53 599 701
Adjustments for undiscounted liabilities to depositors		(36 704)	(217 716)	(979 574)	(3 079 270)	–	(4 313 264)
Total discounted liabilities		25 681 858	3 614 074	6 790 720	13 026 878	172 907	49 286 437
Net liquidity excess/ (shortfall)		(12 675 391)	6 097 559	6 986 084	12 207 291	(754 076)	11 861 467
Cumulative liquidity excess/ (shortfall)[2]		(12 675 391)	(6 577 832)	408 252	12 615 543	11 861 467	11 861 467

(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 to 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.
(5) 89% of Held-to-maturity investments – sovereigns and banks relates to investments in sovereigns

29.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[(1)(3)] (discounted cash flows) R'000	Note	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 markets 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	7	273 695	3 761 421	1 830 989	–	–	5 866 105
Loans and advances to clients – retail personal	8	2 742 871	3 528 034	14 440 536	44 767 577	(330 353)	65 148 665
Loans and advances to clients – retail other	8	7 020	–	–	–	–	7 020
Loans and advances to clients – corporate other	8	13 702	–	–	–	–	13 702
Other receivables	9	105 037	714	–	5 939	–	111 690
Derivative assets	10	(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	8	(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 at amortised cost	15	20 116 795	2 227 827	6 959 632	16 089 687	–	45 393 941
Trade and other payables	16	547 867	262 581	32 593	118 574	145 199	1 106 814
Provisions	17	–	–	–	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 to 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.
(5) 96% of Investments at fair value through profit or loss – sovereigns & banks relates to investments in sovereigns.

29.5 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Note	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2016								
Undiscounted assets								
Loans and advances to clients – retail personal	8	45 072 612	17 382 825	12 935 778	8 197 069	4 157 547	2 399 393	–
Other receivables	9	27 181	26 964	–	–	–	217	–
Derivative assets	10	263 048	221 923	24 022	17 103	–	–	–
Undiscounted assets		45 362 841	17 631 712	12 959 800	8 214 172	4 157 547	2 399 610	–
Adjustments for undiscounted assets		(16 530 021)	(7 641 235)	(4 799 150)	(2 535 651)	(1 068 667)	(485 318)	–
Discounted assets								
Loan impairment provision	8	(3 598 651)	(1 052 441)	(868 244)	(661 136)	(476 988)	(539 842)	–
Total discounted assets		25 234 169	8 938 036	7 292 406	5 017 385	2 611 892	1 374 450	–
Undiscounted liabilities								
Deposits and bonds	15	15 855 225	5 687 757	3 524 374	3 403 964	2 608 260	630 870	–
Trade and other payables	16	143 018	44 739	24 897	12 346	2 416	58 620	–
Provisions	17	107 905	68 963	38 942	–	–	–	–
Undiscounted liabilities		16 106 148	5 801 459	3 588 213	3 416 310	2 610 676	689 490	–
Adjustments for undiscounted liabilities to depositors		(3 079 270)	(1 140 493)	(782 520)	(560 530)	(476 477)	(119 250)	–
Total discounted liabilities		13 026 878	4 660 966	2 805 693	2 855 780	2 134 199	570 240	–
Net liquidity excess/(shortfall)		12 207 291	4 277 070	4 486 713	2 161 605	477 693	804 210	–
Cumulative liquidity excess/(shortfall)		12 615 543	4 685 322	9 172 035	11 333 640	11 811 333	12 615 543	12 615 543

29.5 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Note	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2015								
Undiscounted assets								
Loans and advances to clients – retail personal	8	44 767 577	15 975 484	11 938 702	8 075 604	4 477 483	4 300 304	–
Other receivables	9	5 939	5 720	–	–	–	219	–
Derivative assets	10	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	8	(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	15	16 089 687	5 910 659	3 923 831	2 073 132	3 014 440	1 167 625	–
Trade and other payables	16	118 574	38 195	15 675	8 403	3 037	53 264	–
Provisions	17	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

29.6 Capital management

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

- address the expectations of shareholders and optimise business activities to ensure return on capital targets are achieved through efficient capital management;
- ensure that the 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), which on an ongoing basis 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:

	GROUP		COMPANY	
R'000	**2016**	**2015**	**2016**	**2015**
Composition of qualifying regulatory capital				
Ordinary share capital	**5 649 020**	5 649 071	**6 105 981**	6 105 981
Accumulated profit	**7 772 004**	5 700 459	**7 206 764**	5 159 602
	13 421 024	11 349 530	**13 312 745**	11 265 583
Regulatory adjustments				
– Intangible assets in terms of IFRS	**(242 648)**	(238 876)	**(242 648)**	(238 876)
– Specified advances	**(3 030)**	(178)	**(4 158)**	–
– Unappropriated profit	**(549 390)**	(482 226)	**(549 390)**	(482 226)
Common Equity Tier 1 capital (CET1)	**12 625 956**	10 628 250	**12 516 549**	10 544 481
Issued preference share capital(7)	**173 894**	207 175	**173 894**	207 175
Phase out – non-loss absorbent(1)	**(18 513)**	(25 897)	**(18 513)**	(25 897)
Additional Tier 1 capital (AT1)	**155 381**	181 278	**155 381**	181 278
Tier 1 capital (T1)	**12 781 337**	10 809 528	**12 671 930**	10 725 759
Issued subordinated debt	**2 891 000**	2 891 000	**2 891 000**	2 891 000
Phase out – non-loss absorbent(1)	**(1 156 400)**	(867 300)	**(1 156 400)**	(867 300)
Deduction for third-party capital issued by bank subsidiary(2)	**(333 445)**	(312 487)	**–**	–
Total subordinated debt	**1 401 155**	1 711 213	**1 734 600**	2 023 700
Unidentified impairments	**459 703**	398 251	**459 703**	398 251
Tier 2 capital (T2)	**1 860 858**	2 109 464	**2 194 303**	2 421 951
Qualifying regulatory capital	**14 642 195**	12 918 992	**14 866 233**	13 147 710
CET1 %	**30.1**	29.4	**29.8**	29.1
AT1%	**0.4**	0.5	**0.4**	0.5
T1 %	**30.5**	29.9	**30.2**	29.6
T2 %	**4.4**	5.8	**5.2**	6.7
Total capital adequacy %(3)	**34.9**	35.7	**35.4**	36.3

29.6 Capital management (continued)

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Composition of required regulatory capital				
On balance sheet	3 582 854	3 183 153	3 593 005	3 186 011
Credit risk	3 582 854	3 183 153	3 593 005	3 186 011
Operational risk	291 797	253 131	292 060	253 273
Other assets	214 434	183 357	204 444	180 093
Total regulatory capital requirement (4)	4 089 085	3 619 641	4 089 509	3 619 377
Composition of risk-weighted assets (5)				
On balance sheet	36 747 217	31 831 530	36 851 331	31 860 109
Credit risk	36 747 217	31 831 530	36 851 331	31 860 109
Operational risk	2 992 792	2 531 306	2 995 489	2 532 727
Other assets	2 199 318	1 833 573	2 096 864	1 800 930
Total risk-weighted assets	41 939 327	36 196 409	41 943 684	36 193 766
Total assets based on IFRS	62 945 502	53 916 475	62 942 458	53 912 516
Total risk-weighted assets – adjustments (6)	(21 006 175)	(17 720 066)	(20 998 774)	(17 718 750)
Total risk-weighted assets – regulatory	41 939 327	36 196 409	41 943 684	36 193 766

(1) Starting 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.
(2) 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. 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 9.75% (2015: 10%) of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.75% (2015: 2%). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.
(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. At year-end, 32.85% (2015: 20.00%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

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

R'000	Note	At fair value through profit and loss		At amortised cost		Total
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	
2016						
Interest income	**20**	**–**	**–**	**12 473 038**	**–**	**12 473 038**
Interest expense	**20**	**–**	**–**	**–**	**(2 883 666)**	**(2 883 666)**
Loan fee income		**–**	**–**	**1 545 477**	**–**	**1 545 477**
Loan fee expense		**–**	**–**	**(690 054)**	**–**	**(690 054)**
Transaction fee income		**–**	**–**	**–**	**4 326 103**	**4 326 103**
Transaction fee expense		**–**	**–**	**–**	**(1 305 890)**	**(1 305 890)**
Dividend income	**21**	**–**	**53**	**–**	**–**	**53**
Net impairment on loans and advances to clients	**22**	**–**	**–**	**(4 400 637)**	**–**	**(4 400 637)**
Net movement in financial instruments held at fair value through profit or loss	**23**	**–**	**(1 304)**	**–**	**–**	**(1 304)**
2015						
Interest income	20	–	165 359	10 616 870	–	10 782 229
Interest expense	20	–	–	–	(2 425 702)	(2 425 702)
Loan fee income		–	–	1 245 881	–	1 245 881
Loan fee expense		–	–	(626 708)	–	(626 708)
Transaction fee income		–	–	–	3 672 711	3 672 711
Transaction fee expense		–	–	–	(1 064 835)	(1 064 835)
Net impairment on loans and advances to clients	22	–	–	(4 014 085)	–	(4 014 085)
Net movement in financial instruments held at fair value through profit or loss	23	–	21 271	–	–	21 271

29.8 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 3 levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the 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.

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

The fair value hierarchy is applied to both those assets and liabilities measured at fair value throught 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	Note	At fair value through profit and loss: Deemed held for trading	At fair value through profit and loss: Designated at initial recognition	At amortised cost: Financial assets	At amortised cost: Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2016								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	14 164 697	–	14 164 697	14 164 697	(2)
Held-to-maturity investments	6	–	–	3 634 710	–	3 634 710	3 634 710	(2)
Term deposit investments	7	–	–	7 188 781	–	7 188 781	7 188 781	(2)
Loans and advances to clients	8	–	–	35 759 860	–	35 759 860	38 164 830	Level 3
Other receivables	9	–	–	121 751	–	121 751	121 751	(2)
Derivative assets (1)	10	–	225 403		–	225 403	225 403	Level 2
Financial liabilities								
Deposits and bonds	15	–	–	–	47 940 148	47 940 148	48 088 701	Level 2
– Listed bonds		–	–	–	6 280 481	6 280 481	6 327 832	
– Other fixed-term institutional deposits		–	–	–	3 872 813	3 872 813	3 852 567	
– Retail deposits		–	–	–	37 786 854	37 786 854	37 908 302	
Trade and other payables	16	–	–	–	1 238 384	1 238 384	1 238 384	(2)
Provisions	17	–	–	–	107 905	107 905	107 905	(2)
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	7	–	–	5 778 474	–	5 778 474	5 778 474	(2)
Loans and advances to clients	8	–	–	32 483 897	–	32 483 897	36 938 920	Level 3
Other receivables	9	–	–	110 177	–	110 177	110 177	(2)
Derivative assets (1)	10	–	35 847	–	–	35 847	35 847	Level 2
Financial liabilities								
Deposits and bonds	15	–	–	–	41 181 305	41 181 305	41 407 588	Level 2
– Listed bonds		–	–	–	6 818 546	6 818 546	6 896 747	
– Other fixed-term institutional deposits		–	–	–	4 334 000	4 334 000	4 203 602	
– Retail deposits		–	–	–	30 028 759	30 028 759	30 307 239	
Derivative liabilities (1)		–	22 128	–	–	22 128	22 128	Level 2
Trade and other payables	16	–	–	–	1 085 034	1 085 034	1 085 034	(2)
Provisions	17	–	–	–	64 268	64 268	64 268	(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.

29.9 Fair value calculation methods, inputs and techniques

Investments designated at fair value

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

Loans and advances to clients

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

Derivative assets and liabilities

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

Deposits and bonds

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

– Listed subordinated and senior bonds

A market approach was used. Calculations used the all-in closing bond prices provided by the Johannesburg Stock Exchange's Interest Rate and Currency market (JSE IRC). The pricing method used by the JSE IRC links the bond at issue, to a liquid government bond (a companion bond). The companion is chosen so as to best fit the characteristics of the Capitec 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 deposit and bonds

These comprised unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability.

– Retail fixed-term deposits

An income approach was used. Fair values were calculated by discounting the contractual cash flows using publically 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 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

30. 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 24.	**127 340**	103 137	**–**	–

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.

31. Related-party transactions

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
SUBSIDIARIES				
Dividends				
Ordinary dividend received	**–**	–	**1 115 800**	814 003
Preference dividend received	**–**	–	**16 064**	17 510
Capitec Bank Limited	**–**	–	**1 131 864**	831 513
Management fees received – Capitec Bank Limited	**–**	–	**3 263**	2 570
Investments in subsidiaries are disclosed in note 11.				
Loans due (to) from:				
Capitec Bank Limited	**–**	–	**16 340**	12 142
Keymatrix Proprietary Limited	**–**	–	**(1)**	(1)
PARTIES WITH SIGNIFICANT INFLUENCE				
Brokers' fees	**236**	70	**–**	–
Sponsor fees	**90**	84	**90**	84
PSG Group and subsidiaries(1)	**326**	154	**90**	84
KEY MANAGEMENT				
Key management employees' remuneration				
Salaries and other short-term benefits	**43 025**	31 397	**–**	–
Post-employment benefits	**2 193**	2 169	**–**	–
Share-based payments	**59 373**	60 614	**–**	–
Key management compensation paid by subsidiaries(2)	**104 591**	94 180	**–**	–

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

(2) Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration.

31. Related-party transactions (continued)

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
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	127	128	–	–
Loans advanced during the year	2 599	429	–	–
Interest charged on loans during the year	17	7	–	–
Loan repayments during the year	(4)	(437)	–	–
Loans outstanding at the end of the year	2 739	127	–	–
Retail deposits from directors and other key management employees[4]				
Deposits at the beginning of the year	15 667	4 982	–	–
Interest earned during the year	941	697	–	–
(Withdrawals)/deposits made during the year	(9 009)	9 988	–	–
Deposits at the end of the year	7 599	15 667	–	–

Directors' interest in contracts

All directors of Capitec Bank 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.

(3) No loans were extended to directors. Loans to 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.

31. Related-party transactions (continued)

Directors' interest in share capital[1]

At year-end, the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 17 502 976 (2015: 17 772 455) Capitec Bank Holdings Limited shares, equivalent to 15.13%, (2015: 15.36%) of the issued share capital. The individual interests of the directors were as follows:

	Number of shares held					
	Beneficial		Non-beneficial			
Ordinary shares	**Direct**	**Indirect****	**Direct**	**Indirect****	**Total Shares**	**%**
2016						
AP du Plessis*	32 492	1 037 963	–	–	1 070 455	0.93
MS du P le Roux (Chairman)	–	–	–	13 306 700	13 306 700	11.51
GM Fourie*	–	1 050 168	–	7 707	1 057 875	0.91
RJ Huntley	–	–	–	28 292	28 292	0.02
JD McKenzie	–	–	–	–	–	0.00
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	–	32 500	–	–	32 500	0.03
R Stassen	26 250	–	–	1 387 500	1 413 750	1.22
JP Verster[2]	5 000	–	–	–	5 000	0.00
	140 206	2 133 171	–	15 229 599	17 502 976	15.13
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	–	–	–	–	–	0.00
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

* *Executive*

** *Includes shareholding through associates as defined in terms of the JSE Listings Requirements*

(1) *No transactions occured after year-end and before the date of approval of the annual financial statements that can impact any shareholding of any director.*

(2) *Appointed 23 March 2015.*

	2016		2015	
Preference shares	**Number of shares**	**%**	**Number of shares**	**%**
R Stassen (non-beneficial)	21 000	1.09	21 000	0.91
	21 000	1.09	21 000	0.91

31. Related-party transactions (continued)

Directors' interest in share incentive scheme – options

2016

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

31. Related-party transactions (continued)

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

2016

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
GM Fourie	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	494.53	8 Feb 16	–
(direct beneficial)	8 Feb 16	12 Apr 11	160.09	2 500	(2 500)	494.53	8 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	494.53	8 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	494.53	8 Feb 16	–
	8 Feb 16	15 Apr 14	196.43	4 582	(4 582)	494.53	8 Feb 16	–
	1 Nov 16	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	196.43	4 582	–	–	–	4 582
	1 Apr 17	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 17	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	196.43	4 583	–	–	–	4 583
	1 Apr 18	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 18	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	196.43	4 583	–	–	–	4 583
	1 Apr 19	1 Apr 15	371.88	–	22 872	–	–	22 872
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 20	1 Apr 15	371.88	–	22 871	–	–	22 871
				86 455	71 905			158 360
R Stassen	8 Feb 16	14 Apr 10	97.30	6 250	(6 250)	494.53	8 Feb 16	–
(direct beneficial)	8 Feb 16	12 Apr 11	160.09	7 500	(7 500)	494.53	8 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	12 500	(12 500)	494.53	8 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
	1 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	1 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				58 750	(26 250)			32 500
Total				212 076	92 923			304 999

31. Related-party transactions (continued)

Directors' interest in share incentive scheme – share appreciation rights

2016

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SAR	(SAR exercised)/SAR granted Number of SAR	Market price R	Exercise date	Closing balance Number of SAR
(direct beneficial)	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	443.00	9 Mar 15	–
	26 Feb 15	12 Apr 11	160.09	3 750	(3 750)	443.00	9 Mar 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	443.00	9 Mar 15	–
	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	503.00	9 Feb 16	–
	8 Feb 16	12 Apr 11	160.09	3 750	(3 750)	503.00	9 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	503.00	9 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	503.00	9 Feb 16	–
	8 Feb 16	15 Apr 14	0.01	2 016	(2 016)	503.00	9 Feb 16	–
	1 Apr 17	12 Apr 11	160.09	3 750	–	–	–	3 750
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	0.01	2 016	–	–	–	2 016
	1 Apr 17	01 Apr 15	0.01	–	5 904	–	–	5 904
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	0.01	2 016	–	–	–	2 016
	1 Apr 18	01 Apr 15	0.01	–	5 904	–	–	5 904
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	0.01	2 017	–	–	–	2 017
	1 Apr 19	01 Apr 15	0.01	–	5 903	–	–	5 903
	1 Apr 20	01 Apr 15	0.01	–	5 903	–	–	5 903
				81 815	(25 277)			56 538

31. Related-party transactions (continued)

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

2016

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SAR	(SAR exercised)/SAR granted Number of SAR	Market price R	Exercise date	Closing balance Number of SAR
GM Fourie	26 Feb 15	15 Apr 09	31.23	18 750	(18 750)	443.00	9 Mar 15	–
(direct beneficial)	26 Feb 15	14 Apr 10	97.30	3 125	(3 125)	443.00	9 Mar 15	–
	26 Feb 15	12 Apr 11	160.09	2 500	(2 500)	443.00	9 Mar 15	–
	26 Feb 15	11 Apr 12	198.52	5 000	(5 000)	443.00	9 Mar 15	–
	8 Feb 16	14 Apr 10	97.30	3 125	(3 125)	502.85	17 Feb 16	–
	8 Feb 16	12 Apr 11	160.09	2 500	(2 500)	502.85	17 Feb 16	–
	8 Feb 16	11 Apr 12	198.52	5 000	(5 000)	502.85	17 Feb 16	–
	8 Feb 16	10 Apr 13	201.40	4 375	(4 375)	502.85	17 Feb 16	–
	8 Feb 16	15 Apr 14	0.01	1 556	(1 556)	502.85	17 Feb 16	–
	1 Nov 16	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	1 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 17	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 17	15 Apr 14	0.01	1 556	–	–	–	1 556
	1 Apr 17	1 Apr 15	0.01	–	7 777	–	–	7 777
	1 Nov 17	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	1 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 18	15 Apr 14	0.01	1 556	–	–	–	1 556
	1 Apr 18	1 Apr 15	0.01	–	7 777	–	–	7 777
	1 Nov 18	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	1 Apr 19	15 Apr 14	0.01	1 557	–	–	–	1 557
	1 Apr 19	1 Apr 15	0.01	–	7 776	–	–	7 776
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	1 Apr 20	1 Apr 15	0.01	–	7 776	–	–	7 776
				103 725	(14 825)			88 900

31. Related-party transactions (continued)

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

2016

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

31. Related-party transactions (continued)

Directors' remuneration

The total share option expense relating to directors amounted to R13 892 281 (2015: R3 884 982) and share appreciation rights expense amounted to R 39 518 151 (2015: R64 084 065).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2016						
Executive[1]						
AP du Plessis	6 692	229	3 646	–	10 567	6 658
GM Fourie	8 018	468	4 427	–	12 913	8 770
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 200	1 200	–
RJ Huntley	–	–	–	306	306	–
JD McKenzie	–	–	–	522	522	–
NS Mjoli-Mncube	–	–	–	306	306	–
PJ Mouton	–	–	–	462	462	–
CA Otto	–	–	–	574	574	–
G Pretorius	–	–	–	306	306	–
R Stassen	–	–	–	388	388	–
JP Verster[2]	–	–	–	491	491	–
JP van der Merwe[3]	–	–	–	29	29	–
	14 710	697	8 073	4 584	28 064	15 428
2015						
Executive[1]						
AP du Plessis	5 520	56	1 968	–	7 544	2 053
GM Fourie	6 408	205	2 127	–	8 740	1 585
Non-executive						
MS du P le Roux (Chairman)	–	–	–	1 200	1 200	–
RJ Huntley	–	–	–	283	283	–
JD McKenzie	–	–	–	483	483	–
NS Mjoli-Mncube	–	–	–	283	283	–
PJ Mouton	–	–	–	427	427	–
CA Otto	–	–	–	531	531	–
G Pretorius	–	–	–	283	283	–
R Stassen	–	–	–	283	283	–
JP van der Merwe	–	–	–	531	531	–
	11 928	261	4 095	4 304	20 588	3 638

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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

32. Cash flow from operations

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Net profit before tax	4 472 231	3 559 390	1 130 676	831 564
Adjusted for non-cash items				
Fair value adjustments on financial assets	1 304	(21 271)	–	–
Loan impairment charge	1 274 235	220 194	–	–
Depreciation	305 646	282 043	–	–
Amortisation	97 531	85 904	–	–
Loss/(profit) on disposal of assets	11 926	(978)	–	–
Share-based employee costs – options	23 163	13 105	–	–
Loss on sale of associate	-	886	–	–
Movements in assets and liabilities				
Loans and advances to clients	(4 550 198)	(2 651 241)	301	282
Other receivables	(12 889)	15 113	975	1 278
Derivatives	(111 682)	64 429	–	–
Deposits and bonds	6 758 843	5 732 627	–	–
Trade and other payables	165 186	356 321	5 653	5
Movements in provisions	43 637	52 817	–	–
Share-based employee costs – share appreciation rights	(33 556)	3 135	–	–
Cash flow from operations	8 445 377	7 712 474	1 137 605	833 129

33. Income taxes paid

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Balance at the beginning of the year	(37 635)	(22 529)	–	(10)
Income statement charge	1 243 994	995 791	29	38
Movement in deferred tax	57 133	71 332	–	–
Tax effect on settlement of share options taken to equity	(18 402)	(45 522)	–	–
Balance at the end of the year	52 702	37 635	–	–
Income tax paid	1 297 792	1 036 707	29	28

34. Dividends paid

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Balance at the beginning of the year	10 790	11 810	10 790	11 810
Dividend declared during the year:				
Ordinary dividend	1 115 809	813 837	1 115 800	814 004
Preference dividend	16 064	17 510	16 064	17 510
Balance at the end of the year	(10 382)	(10 790)	(10 382)	(10 790)
Dividends paid	1 132 281	832 367	1 132 272	832 534

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015

35. Realised loss on settlement of employee share options less participants' contributions

Nil (2015: 328 996) ordinary shares issued	–	(136 501)	–	–
Shares acquired	(100 820)	(140 918)	–	–
Fair value of shares utilised to settle share options	(100 820)	(277 419)	–	–
Proceeds on settlement of options	33 310	56 276	–	–
	(67 510)	(221 143)	–	–

36. Commitments and contingent liabilities

Property operating lease commitments[1]

The future aggregate minimum lease payments under non-cancellable leases are as follows:

Within one year	353 711	307 476	–	–
From one to five years	1 072 435	835 503	–	–
After five years	278 522	214 233	–	–
Total future cash flows	1 704 668	1 357 212	–	–
Straight-lining accrued	(89 184)	(70 473)	–	–
Future expenses	1 615 484	1 286 739	–	–

Sub-lease payments:

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	4 805	–	–	–

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

R'000	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Other operating lease commitments				
Within one year	1 734	1 107	–	–
From one to five years	362	365	–	–
	2 096	1 472	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	346 647	54 400	–	–
Intangible assets	24 126	9 442	–	–
Not contracted for				
Property and equipment	701 586	496 697	–	–
Intangible assets	467 234	132 395	–	–
	1 539 593	692 934	–	–

36. Commitments and contingent liabilities (continued)

Contingent liabilities

Alleged contravention of the NCA

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

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

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

Participation in consortium underwriting the recapitalisation of African Bank

On 10 August 2014, African Bank Limited was placed into curatorship. Capitec Bank is a participant in a consortium that will underwrite the recapitalisation of African Bank. The other members of the consortium comprise the Public Investment Corporation and five other South African retail banks. The banks have a maximum exposure of R2.5 billion of the recapitalisation. The participation level of each of the banks is based on a formula agreed on between the banks. The recapitalisation will occur early during March 2016.

37. 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 to the company, on the terms and conditions and for the amounts that the board may determine.

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

38. Share incentive scheme

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

The bank allows its employees to purchase shares in CBHL up to a value not exceeding 20% (2015: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2015: 20%) and the transaction costs are borne by the company. The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The bank offers share options in CBHL to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from two to six years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

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

38. Share incentive scheme (continued)

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

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

Settled in shares	**(207 799)**	(1 023 267)
Options exercised	**(207 799)**	(1 023 267)

39. 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 [(2)]	Risk free rate %	Number of options out-standing	Fair value on issue/re pricing date ignoring vesting conditions R'000	Expected vesting propotion[(1)] %	Value taking into account expected vesting proportion R'000
2010/2011	97.30	100.20	35.9	2.4	2015/2016	8.2	1 875	75	100.0	75
	117.79	129.00	35.5	2.2	2016/2017	7.5	3 184	169	100.0	169
2011/2012	160.09	168.00	34.4	1.9	2015/2016	8.0	1 563	100	100.0	100
	160.09	168.00	34.4	1.9	2017/2018	8.2	33 880	2 371	100.0	2 371
2012/2013	182.40	187.05	33.1	2.8	2017/2018	6.9	1 713	102	100.0	102
	182.40	187.05	33.1	2.8	2018/2019	7.1	1 714	110	100.0	110
	198.52	206.25	32.9	2.7	2015/2016	6.8	1 250	75	100.0	75
	198.52	206.25	32.9	2.7	2017/2018	6.9	48 877	3 282	100.0	3 282
	198.52	206.25	32.9	2.7	2018/2019	7.2	48 877	3 544	100.0	3 544
2013/2014	201.40	217.50	32.1	3.0	2015/2016	5.2	1 875	101	100.0	101
	201.40	217.50	32.1	3.0	2017/2018	5.4	37 500	2 287	100.0	2 287
	201.40	217.50	32.1	3.0	2018/2019	5.6	37 500	2 484	100.0	2 484
	201.40	217.50	32.1	3.0	2019/2020	5.8	37 500	2 652	100.0	2 652
	209.83	213.50	32.1	3.0	2016/2017	6.8	8 750	461	100.0	461
	209.83	213.50	32.1	3.0	2017/2018	7.2	8 750	530	100.0	530
	209.83	213.50	32.1	3.0	2018/2019	7.5	8 750	587	100.0	587
	209.83	213.50	32.1	3.0	2019/2020	7.7	8 750	635	100.0	635
2014/2015	196.43	206.50	31.5	1.9	2015/2016	6.9	2 727	115	100.0	115
	196.43	206.50	31.5	1.9	2017/2018	7.3	29 880	1 562	100.0	1 562
	196.43	206.50	31.5	1.9	2018/2019	7.5	29 885	1 769	100.0	1 769
	196.43	206.50	31.5	1.9	2019/2020	7.7	29 891	1 936	100.0	1 936
	253.82	288.32	31.2	1.9	2016/2017	6.3	28 000	2 033	100.0	2 033
	253.82	288.32	31.2	1.9	2017/2018	6.7	28 000	2 383	100.0	2 383
	253.82	288.32	31.2	1.9	2018/2019	6.6	28 000	2 627	100.0	2 627
	253.82	288.32	31.2	1.9	2019/2020	6.8	28 000	2 848	100.0	2 848
2015/2016	371.88	535.00	27.3	1.7	2017/2018	6.6	84 080	16 729	100.0	16 729
	371.88	535.00	27.3	1.7	2018/2019	6.8	84 075	18 182	100.0	18 182
	371.88	535.00	27.3	1.7	2019/2020	6.9	84 071	19 456	100.0	19 456
	371.88	535.00	27.3	1.7	2020/2021	7.1	84 070	20 574	100.0	20 574
	539.88	598.04	31.3	1.2	2017/2018	7.1	8 875	1 415	100.0	1 415
	539.88	598.04	31.3	1.2	2018/2019	7.3	8 875	1 703	100.0	1 703
	539.88	598.04	31.3	1.2	2019/2020	7.5	8 875	1 950	100.0	1 950
	539.88	598.04	31.3	1.2	2020/2021	7.7	8 875	2 162	100.0	2 162
Grand total							868 487	117 009	100.0	117 009

(1) Executive staff turnover of 0% p.a. (2015: 7%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.
(2) The remuneration committee approved a change in the exercise date of all share options, maturing in March 2016 and April 2016, to be exercised in February 2016.

40. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

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

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

(1) All rights were valued using the Black Scholes model and the following variables:
- *Dividend yield 1.5%*
- *Volatility(5) 37.2%*
- *Ex dividend share price 467.08*

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

(3) As from the 2015 financial year:
- *SARs are granted at R0.01 consideration.*
- *There is no fixed ratio between the number of SARs and share options.*

(4) The remuneration committee approved a change in the exercise date of all share appreciation rights, maturing in March 2016 and April 2016, to be exercised in February 2016.

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

41. Derivative financial instruments: economic hedges

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

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of Rnil (2015: R21 million).

42. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values Assets	Fair values Liabilities
2016			
Interest rate swaps	4 026 349	(78 090)	–
Cross currency interest rate swaps	343 500	(147 313)	–
Net	4 369 849	(225 403)	–
2015			
Interest rate swaps	6 130 349	(29 273)	22 127
Cross currency interest rate swaps	343 500	(5 060)	1
Net	6 473 849	(34 333)	22 128

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand Total
2016					
Discounted swap cash flows	1 035	(5 489)	(17 659)	(55 977)	(78 090)
Discounted cross currency interest rate swap cash flows	–	4 344	11 555	(163 212)	(147 313)
Net	1 035	(1 145)	(6 104)	(219 189)	(225 403)
2015					
Discounted swap cash flows	1 870	(1 100)	(327)	(7 589)	(7 146)
Discounted cross currency interest rate swap cash flows	–	6 197	17 508	(28 764)	(5 059)
Net	1 870	5 097	17 181	(36 353)	(12 205)

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

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

At 29 February 2016, the fixed interest rates were between 5.21% and 12.17% (2015: 5.21% and 7.92%) and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 29 February 2016.

The fair value adjustment transferred to the income statement amounted to a cost of R111.2 million (2015: R36.6 million) and has been included in interest expense and other operating expenses in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2016 and 2015. There were no transactions for which cash flow hedge accounting had to be discontinued in 2016 and 2015 as a result of highly probable cash flow no longer being expected to occur.

43. Shareholders holding more than 5% of the company's ordinary shares

2016	Shares held Number	Shareholding %
Shareholder		
PSG Financial Services Limited	35 484 898	30.69
Public Investment Corporation SOC	8 567 401	7.41
Limietberg Sekuriteit Proprietary Limited	8 547 063	7.39

44. Black economic empowerment shareholding

2016	Shares held Number	Shareholding %
Shareholder		
Petratouch Proprietary Limited	5 284 735	4.57
Coral Lagoon Investments 194 Proprietary Limited	4 715 265	4.08
Nonhlahnla Mjoli-Mncube (director)	75 400	0.07
	10 075 400	8.72

45. Shareholding by executive management[1]

2016	Shares held Number	Shareholding %
Shareholder		
JE Carstens	21 905	0.02
W de Bruyn	62 817	0.05
CG Fischer	1 047 320	0.91
HAJ Lourens	505 854	0.44
NS Mashiya	–	–
NST Motjuwadi	10 700	0.01
A Olivier	283 792	0.25
L Venter	488 264	0.42
	2 420 652	2.10

(1) Executive directors' shareholdings are presented in the related parties note.

46. Post-balance sheet events

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.

Statutory information

Analysis of shareholders holding ordinary shares

	Number share holders	% of total	Number shares	% of interest
1 – 1 000	9 199	82.53	1 886 343	1.63
1 001 – 10 000	1 451	13.02	4 464 348	3.86
10 001 – 100 000	393	3.53	12 942 872	11.19
100 001 and over	103	0.92	96 333 428	83.32
	11 146	100.00	115 626 991	100.00
Shareholder spread				
Public shareholders	11 115	99.72	62 120 155	53.72
Holdings less than 5%	11 115	99.72	62 120 155	53.72
There are no public shareholders that hold 5% or more	–	–	–	–
Non-public shareholders excluding directors and their associates	5	0.05	36 003 860	31.14
Holdings of 5% or less	3	0.03	518 962	0.45
Trustee of the Capitec Bank Holdings Share Trust	3	0.03	518 962	0.45
Holdings of 5% or more	2	0.02	35 484 898	30.69
PSG Financial Services Limited	2	0.02	35 484 898	30.69
Directors (refer to pages 52 to 55 for detail)	26	0.23	17 502 976	15.14
Directors of company or any subsidiaries	5	0.04	140 206	0.12
Associates of directors of company or any of its subsidiaries	21	0.19	17 362 770	15.02
	11 146	100.00	115 626 991	100.00

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares

	Number share holders	% of total	Number shares	% of interest
1 – 1 000	402	58.52	166 449	8.64
1 001 – 10 000	247	35.95	823 939	42.77
10 001 – 100 000	38	5.53	1 016 732	52.77
100 001 and over	–	–	–	–
Repurchased preference shares[(1)]	–	–	(80 616)	(4.18)
	687	100.00	1 926 504	100.00
Shareholder spread				
Public shareholders	685	99.70	1 919 930	99.65
Holdings less than 5%	685	99.70	1 919 930	99.65
There are no public shareholders that hold 5% or more		–		–
Non-public shareholders excluding directors and their associates	1	0.15	66 190	3.44
Repurchased preference shares held in Capitec account and not yet cancelled	1	0.15	66 190	3.44
Repurchased preference shares[(1)]	–	–	(80 616)	(4.18)
Directors (refer to pages 52 to 55 for detail)	1	0.15	21 000	1.09
None of the directors hold preference shares		–		–
Associates of directors of company or any of its subsidiaries	1	0.15	21 000	1.09
	687	100.00	1 926 504	100.00

(1) At 29 February 2016, Capitec has repurchased 80 616 preference shares, of which 66 190 were held in a Capitec account and 14 426 settled after 29 February 2016. All 80 616 preference shares were delisted and cancelled.

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Glossary

Acronym	Description
AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
ALSI	JSE All Share Index
AMPS	All Media and Products Survey
AT1	Additional tier 1
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
Basel	Basel Committee on Banking Supervision
B-BBEE	Broad-based Black Economic Empowerment
C.Connect	Electronic Communications
C.Net	Web-based employee portal
Capitec	Capitec Bank Holdings Limited
Capitec Bank	Capitec Bank Limited
Capitec Bank Pillars	Simplicity, Affordability, Accessibility and Personal Service
CCS	Centralised collection services
CET1	Common equity tier 1
CMT	Continuity management team
CPA	Credit Providers Association
CSI	Corporate Social Investment
DEFRA	UK Department for Environment, Food and Rural Affairs
DMTN	Domestic Medium Term Note Programme
DPS	Dividends per share
DR	Disaster recovery
D-SIB	Domestically systemically important bank
EEA2	Employment Equity Act form 2
EPS	Earnings per Share
EXCO	Executive management committee
FICA	Financial Intelligence Centre Act, 2001
FRN	Floating rate note
FSC	Forest Stewardship Council
GDP	Gross domestic product
GHG	Greenhouse gas
GRI	Global reporting initiative
HEPS	Headline earnings per share
IA	Internal Audit
IAR	Integrated annual report
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Standards Interpretations Committee
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
IRM	Integrated risk management
ISMS	Information security management system
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	The 2009 King Report on Corporate Governance
LCR	Liquidity coverage ratio
LDT	Last day of trade
LRP	Liquidity recovery plan
LSM	Living standards measure
Moody’s	Moody’s Investors Services Inc.
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, 2005
NCD	Negotiable Certificate of Deposit
NCR	National Credit Regulator
NSFR	Net stable funding ratio
OCR	Optical character recognition
PASA	Payments Association of South Africa
PD	Probability of default
POCA	Prevention of Organised Crime Act, 1998
Polproc	Policies and procedures department
POS	Point-of-Sale Merchant
PwC	Pricewaterhouse Coopers Inc.
RCMC	Risk and capital management committee
REMCO	Human resources and remuneration committee
RISCO	Risk committee
ROE	Return on equity
SAMOS	South African Multiple Options Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Services
SARs	Share Appreciation Rights
Stats SA	Statistics South Africa
T2	Tier 2
The group	Capitec Bank Holdings Limited and subsidiaries
VWAP	Volume weighted average price
WACC	Weighted average cost of capital

Shareholders' calendar

Financial year-end
29 February 2016

Profit announcement
30 March 2016

Integrated annual report
April 2016

Annual general meeting
27 May 2016

Interim report
September 2015

Ordinary dividend

JSE code
CPI

ISIN
ZAE 000035861

Final dividend number 24 will be paid on 25 April 2016

Salient dates for the dividend payment were:

Last day to trade cum dividend
Friday, 15 April 2016

Record date
Friday, 22 April 2016

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 Verster (appointed 23 March 2015)

Secretary
YM Mouton (appointed 1 December 2015)

Registered address
1 Quantum Street, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

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