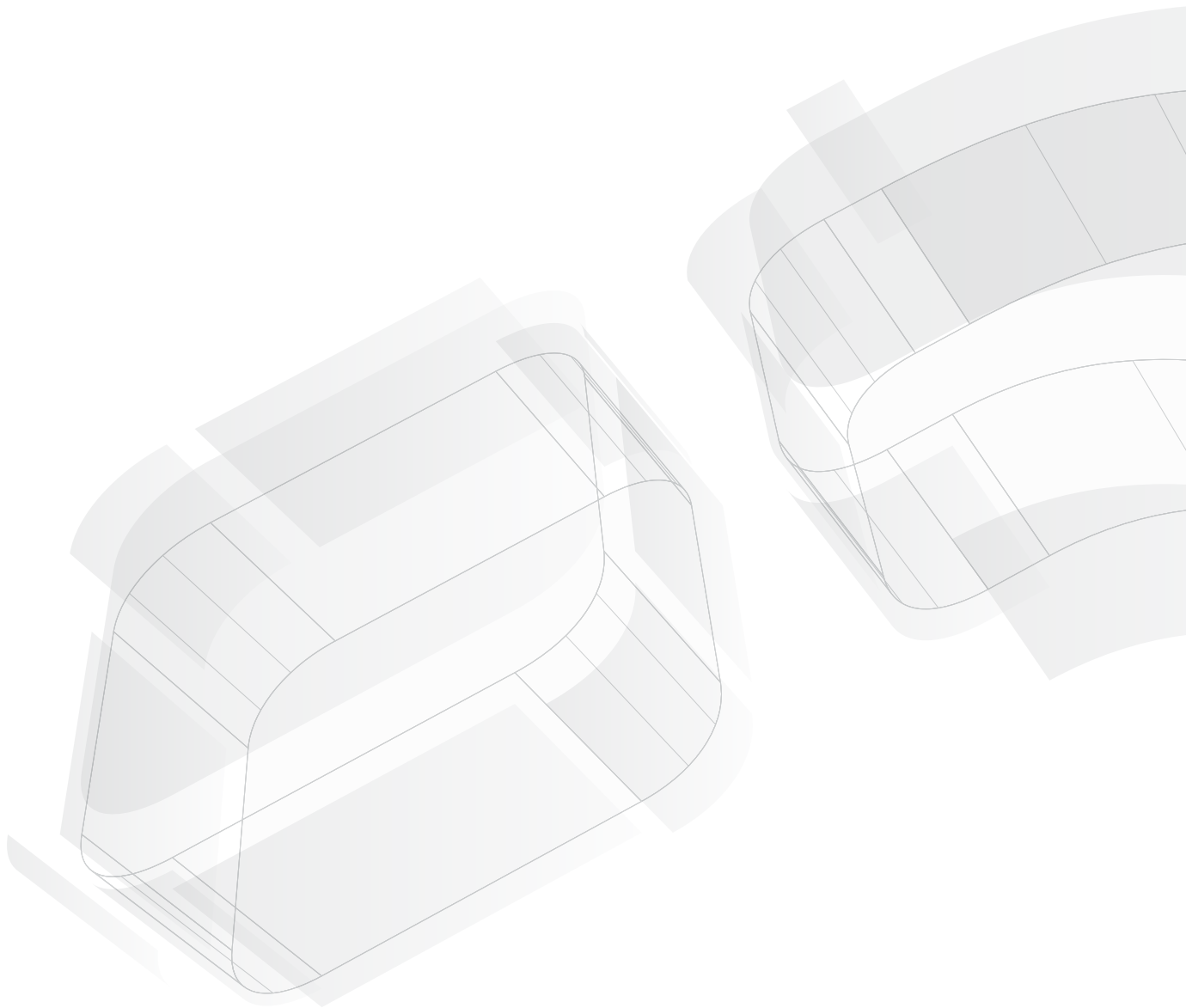


2014

*Questions  
change the world*



**CAPITEC**  
BANK  
LIMITED





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# What is the chief financial officer's view?

01

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



## Growing earnings in a downturn

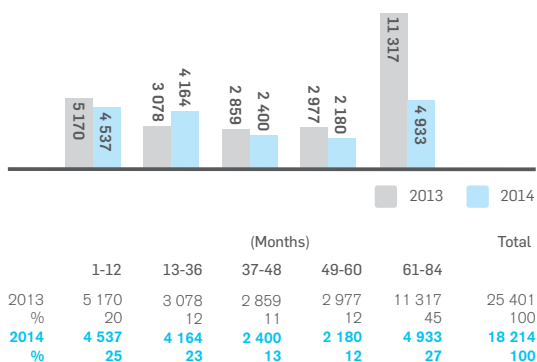
*32% growth in earnings to R2 billion*

Our strategy of developing a full service bank enabled us to report continued earnings growth due to a diversification of revenue streams. We earn income from providing both transacting services and unsecured credit.

Headline earnings for the 2014 financial year amounted to R1 988 million, 32% more than the R1 501 million earned in 2013.

The macro-economic environment over the past year was characterised by annual GDP growth of 1.8%, insufficient job creation, rising cost pressures, greater client indebtedness and increased competition. These developments made it necessary to adopt a more defensive strategy for the lending business. This means being stricter about who we lend to, which resulted in lower loan sales for the year of R18 billion (2013: R25 billion).

LOAN SALES BY PRODUCT (R'm)



### Loans advanced ('sales')

The value of loans advanced declined 28% to R18.2 billion as reflected in the accompanying chart.

#### *Tighter credit rules slow loan sales*

During the 2014 financial year the maximum loan offer remained R230 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.

The effect of the tightening is also clearly seen in the decline in sales in almost all categories, with only the 13- to 36-month category increasing due to a migration to shorter terms. The category most affected was the 61- to 84-month loan category, where loan sizes are larger and where a lower risk appetite resulted in a decline of 57% in the value of loans sold.

The number of loans sold also decreased by 19% to 3.0 million. Similarly, there was a decrease in the average loan amount to R6 003 compared to R6 756 for the 2013 financial year.

The overall mix of loan sales for terms less than 12 months to loans sold with terms more than 12 months changed from 20:80 for 2013 to 25:75 in 2014.

#### *Negative industry growth of 11%*

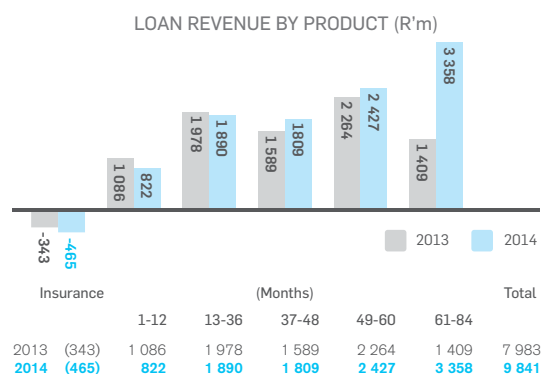
The reduction in loan sales is in line with the broad trends in the unsecured credit market as reported by the National Credit Regulator (NCR). The growth in unsecured credit was negative, down 11% for the first three calendar quarters of 2013 when compared to the first three calendar quarters of 2012. The industry growth rate for the full year in 2012 compared to 2011 was an increase in growth of 23%, and for the full year 2011 to 2010, an increase of 60%<sup>(1)</sup>.

<sup>(1)</sup> Capitec Bank reflects loans advanced net of internal loan consolidations. The NCR reflects credit granted gross of internal and external loan consolidations in its statistics. Credit granted by the market is therefore inflated.

## Loan revenue

### 23% growth in loan revenue

Loan revenue, which consists of interest, origination fees and monthly administration fees net of insurance expense, grew by 23% to R9.8 billion compared to the 41% growth in 2013, as reflected in the accompanying chart.



The growth in loan revenue is despite the 28% decrease in loan sales. This is due to the annuity effect of loan sales in previous financial years. However, the impact of lower sales is evident in the slower rate of revenue growth.

### Rising costs for clients will continue to affect loan sales

The interest rates on our loans are fixed which shields our clients from rising interest rates for the duration of their loan. Clients continue to face rising cost pressures, notably electricity and transport costs (due to the impact of Rand depreciation on the price of fuel) as examples. This will continue to exert pressure on sales. Our risk-based loan pricing continues to be refined to ensure that we keep abreast with changes in the credit market.

### Outstanding loan capital protected from retrenchments and the death of clients

The cost of credit life and retrenchment insurance offered on loan products with terms of six months and longer is included as a direct cost that we must cover in order to make a profit on each loan sold. This insurance protects Capitec Bank from bad debt losses, but it also benefits our clients as Capitec Bank does not claim against them or their deceased estates. We do not charge our clients an additional insurance premium for this. Consequently this means that we have a lower appetite for risk than most of our competitors, who do charge a premium for credit life and retrenchment insurance, which is an unregulated charge. The insurance premiums we pay for our cover amounted to R465 million (2013: R343 million). We will not be impacted by the NCR's proposed caps on credit insurance.

### Loan book, arrears and provision for doubtful debts

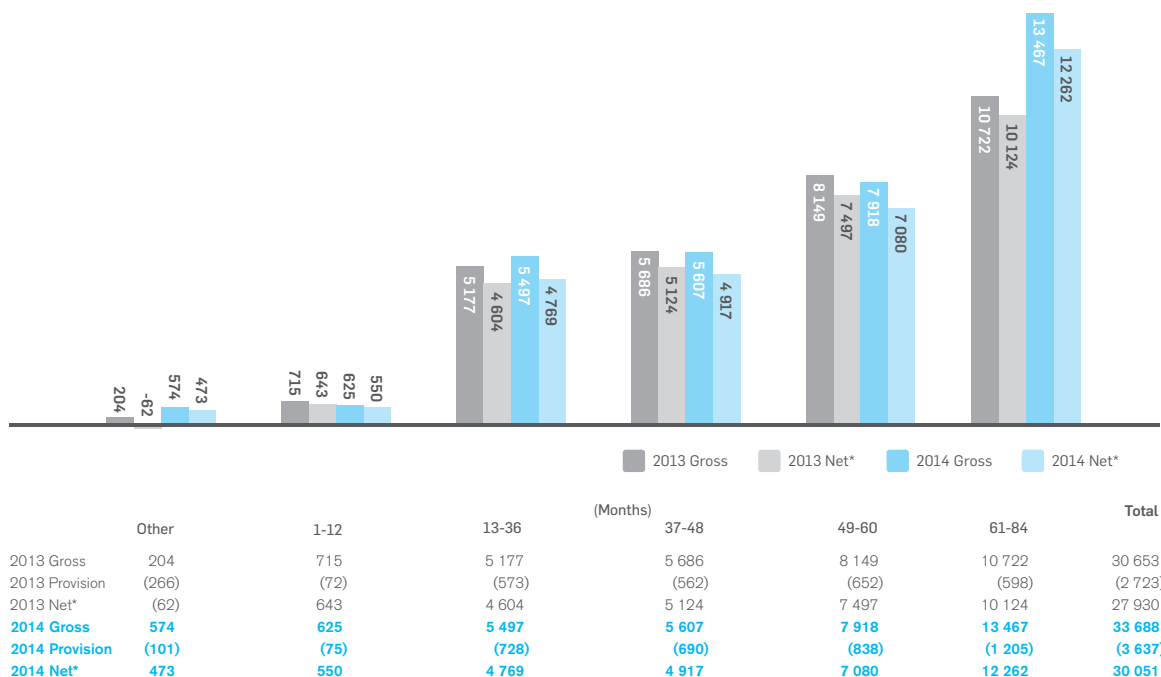
#### 10% growth in loans and advances

The gross loan book grew by R3 billion to R33.7 billion. The increase in gross loans and advances was 10%, much less than the 67% experienced in 2013. The slower growth is due to the stricter credit granting criteria which slowed sales and reduced the amounts and terms for new loans. The average term of a loan granted in 2014 was 37 months (2013: 48 months).

Gross loans and advances with terms longer than 12 months continued to comprise most of the book at 96% compared to 97% at February 2013. The 61- to 84-month loan book accounts for 40% (2013: 35%) of the gross loan book.

At the end of February 2014 the weighted average outstanding term of the loan book was 45 months (2013: 48 months).

LOAN BOOK BY PRODUCT (R'm)



\* Net – loans and advances net of impairment provisions

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

### Arrears disclosed on a client basis

Arrears are reflected 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. Once the client misses their third payment, all their outstanding balances on all loans are written off.

Total arrears grew from R1.8 billion at the end of February 2013 to R2.2 billion, an increase of 22%. Arrears as a percentage of gross loans and advances increased from 5.8% at the end of February 2013 to 6.5%. The higher increase in arrears as a percentage of gross

loans and advances reflects a deterioration in the quality of the loan book. The deterioration in credit quality has been addressed by tightening lending criteria and through provisioning.

### 34% increase in impairment provisions

Our provisioning remains prudent and our write-off policy remains unchanged. The impairment provision increased 34% to R3.6 billion and represents 10.8% of gross loans and advances compared to 8.9% at the end of February 2013. As with arrears measurement, impairment provisions are calculated on a client level.



Although arrears have increased by 22%, our provisioning has increased to 34% to address the deterioration. The increase in provisions is 3.4 times more than the increase in gross loans and advances and 1.67 times greater than loans in arrears.

The increase in provisions is driven by three factors. The first is that our statistical provisions model automatically factored in the poorer performance history. This results in it projecting a more conservative provisioning requirement. The second is that we have maintained our prudent approach of supplementing the model provision with additional, overlay provisions and have also thirdly, added a new provision supplement to address higher risk rescheduled balances.

### *Increased provisioning for rescheduled accounts*

Rescheduling (otherwise known as restructuring or forbearance) refers to arranging a new payment plan for clients who are experiencing difficulty in making their repayments. This is a normal practice of most credit providers with longer-term loans. All our rescheduled loans are managed as a separate group with appropriate subsegmentation to ensure accurate provisioning calculations.

When an arrears loan is rescheduled, a new contract is concluded and the client starts afresh as up-to-date in line with their status as reflected on the credit bureaux. Clients may only ever be rescheduled twice, and then only in certain circumstances.

Rescheduling is done in terms of a centralised credit policy and monitored by the credit committee. As concluding a new contract does not necessarily remove the risk, we have always carried a higher provision on current rescheduled loans than the rest of the current book.

During 2014, we increased the provisioning for what we regard as higher-risk rescheduled clients, that is those clients who were in arrears but who were rescheduled in the last six months. The six month period is based on statistical data that indicates that if a client is up-to-date six months after being rescheduled they are more likely to be rehabilitated. At February 2014, this meant increasing the provision, for clients that had not yet reached the six month mark, by R103 million. We now separately disclose these balances. At February 2014 the total of such balances was R747 million and the provisions thereon R246 million, a coverage of 33%. At February 2013 the total balances were R625 million, with a provision of R64 million thereon, a coverage of 10%. The increase in the coverage ratio on these balances reflects the increased conservatism.

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 following table.

		Aug 2012	Feb 2013	Aug 2013	Feb 2014
Gross loans and advances	R'm	24 684	30 653	32 641	<b>33 688</b>
Loans past due (arrears)	R'm	1 075	1 777	1 799	<b>2 174</b>
Arrears to gross loans and advances	%	4.4	5.8	5.5	<b>6.5</b>
Provision for doubtful debts	R'm	1 873	2 723	3 184	<b>3 637</b>
Provision for doubtful debts to gross loans and advances	%	7.6	8.9	9.8	<b>10.8</b>
Provision/arrears coverage ratio <sup>(1)</sup>	%	174	153	177	<b>167</b>
Arrears and arrears subsequently rescheduled and now current in the past 6 months <sup>(2)</sup>	Rm		2 402	2 634	<b>2 921</b>
Arrears and arrears subsequently rescheduled and now current in the past 6 months to gross loans and advances <sup>(2)</sup>	%		7.8	8.1	<b>8.7</b>
Arrears and arrears subsequently rescheduled and now current in the past 6 months coverage ratio <sup>(2)</sup>	%		113	121	<b>125</b>

<sup>(1)</sup> The provision/arrears 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.

<sup>(2)</sup> Comparatives provided for the periods since Capitec Bank transitioned to client level provisioning.

R'm	2014	%	2013	%
Gross	30 766 804		28 250 973	
Impairment	(2 073 214)	7%	(1 794 906)	6%
Current	28 693 590		26 456 067	
Gross	747 262		625 073	
Impairment	(246 292)	33%	(64 418)	10%
Current – arrears rescheduled in the past six months	500 970		560 655	
Gross	2 173 863		1 777 034	
Impairment	(1 317 670)	61%	(863 490)	49%
Arrears	856 193		913 544	
Total gross	33 687 929		30 653 080	
Total impairment	(3 637 176)		(2 722 814)	
Total net	30 050 753		27 930 266	

The impact of a missed instalment on longer-term, higher-value loans is more severe at the beginning of the repayment period, as the full loan amount is then at risk. Consequently, the rate of provisioning on new longer-term loans continues to exceed the rate at which income is recognised in the early stages.

Our conservative provisioning policy has stood us in good stead. We did not need to make any large once-off adjustments. Having taken the difficult conditions into account we believe that we have sufficient provisions to address the risk in the book.

### *We tightened our credit rules*

In May 2012, when we began extending longer-term, higher value loans, we foresaw the risk of a possible increase in impairments and built safety buffers into our pricing.

When we first saw the credit cycle deteriorate we acknowledged this; progressively tightening our lending rules and lowering our risk appetite. We remain cautious in granting loans.

Our first significant pre-emptive change was in November 2012; we introduced a new behavioural scorecard and a cash quality indicator to improve our risk-based pricing model. We continued to tighten credit criteria early in the 2014 financial year to address what we perceived as continuing deterioration in the credit market due to job losses, slower than expected economic growth, rising indebtedness and slower growth in clients' disposable incomes.

On 26 May 2013, we increased interest rates on new loans advanced by 2% per year. This had the effect of reducing the amount of the loan that a client could get, as more of the monthly repayment must service the increased interest. This also acts as a credit quality rule. Some clients are now granted shorter loans and some clients who might previously have been granted a loan, are now declined. The increase does not immediately result in an increased yield on the book as it only applies to new business.

In March 2013, we reported that we had identified a growing trend of clients with a propensity to over-indebt themselves by taking on additional credit at other providers after receiving a loan with us. To address this we implemented significantly tighter rules in June 2013.

### Loan impairment expense

The net loan impairment expense of R4.0 billion for the year increased by R1.3 billion and represents 12.4% of average gross loans and advances compared to 10.8% in 2013. The impairment charge comprises bad debts written-off, the movement in the provisions for bad debts ('impairment allowance') and bad debts recovered.

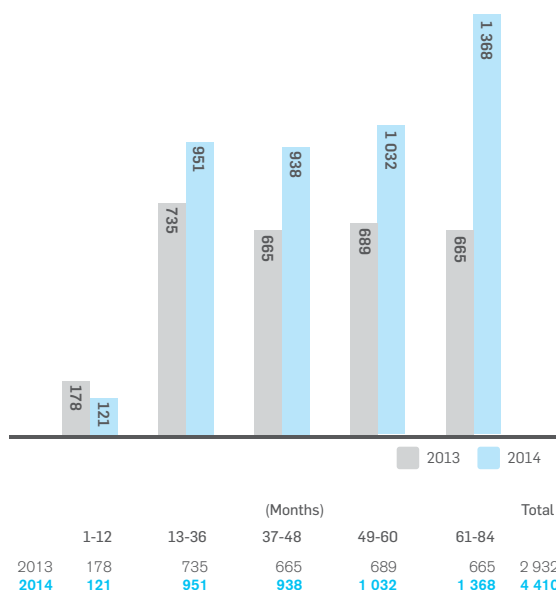
R'm	2014	2013
Bad debts	3 496	1 755
Movement in impairment allowance	914	1 177
Bad debts recovered	(434)	(273)
<b>Net impairment charge</b>	<b>3 976</b>	<b>2 659</b>

The past year has been difficult for unsecured lending. Bad debts written-off (excluding provision movements and recoveries) amounted to R3.5 billion compared to R1.8 billion for the 2013 financial year.

The provisions charge was R914 million compared to R1 177 million in the previous year. This does not mean that we were less conservative in provisioning. Most of the increase in the prior year was driven by the 67% growth in the loans and advances book. The deceleration in the rate of book growth was 57%, whereas the movement in the impairment allowance only reduced by 22%. We have demonstrated in the section on provisioning (see above) that our provisioning remains prudent.

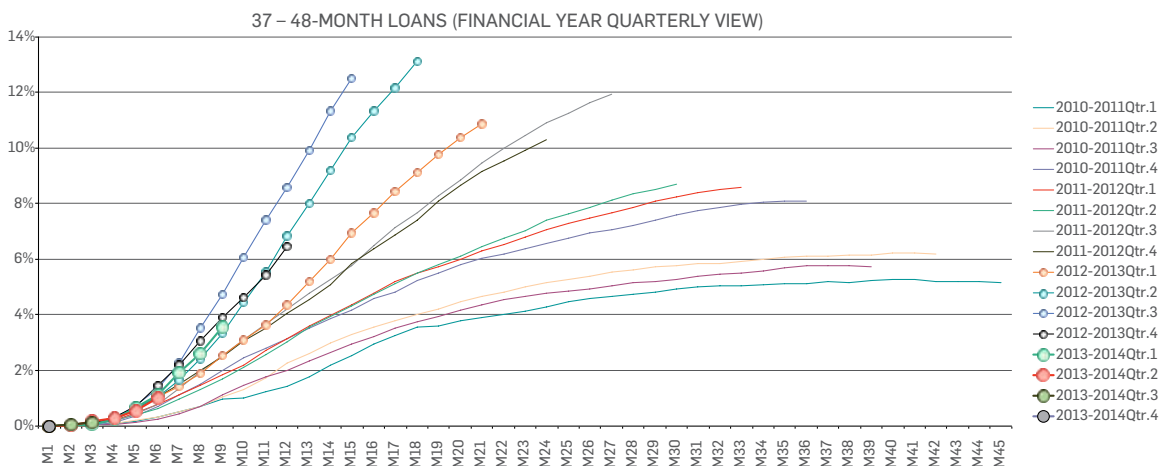
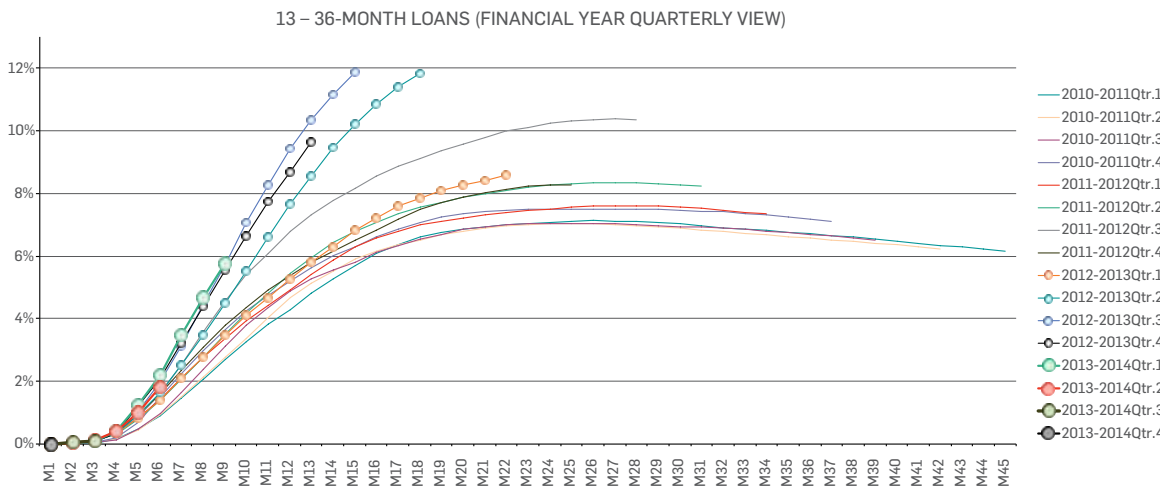
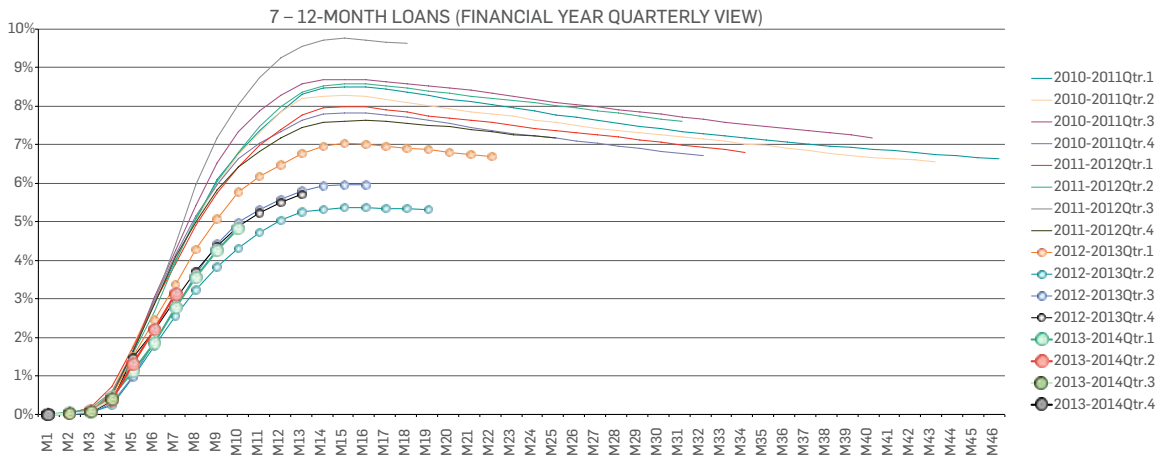
Our bad debt recoveries grew from R273 million to R434 million. The performance of the panel of collection agencies has stabilised and central, internal collections are now performing to satisfaction. Centralising our collections has not been without growing pains. We had to address some people, systems and process matters to optimise collections. As one example, configuration issues with our predictive dialler negatively impacted recoveries. We also appointed more personnel, invested

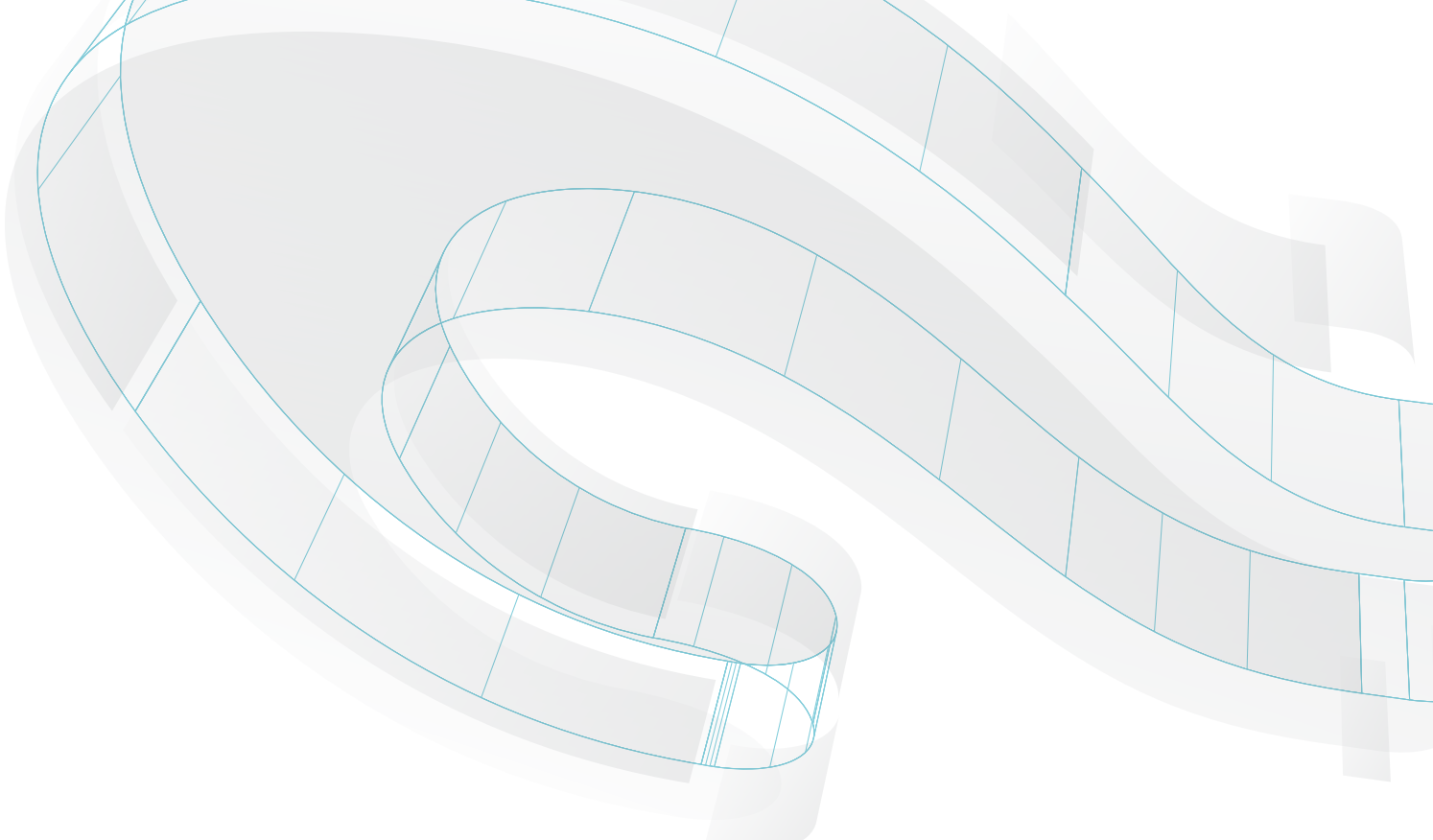
GROSS LOAN IMPAIRMENT EXPENSE  
(BEFORE RECOVERIES) (R'm)



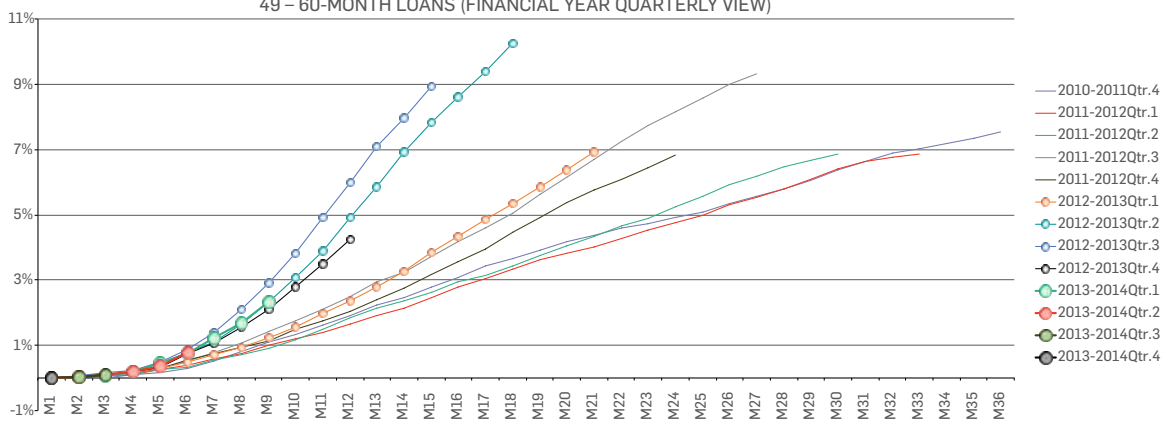
in training and recalibrated the performance measurement systems. These measures together with new strategies, including the sale of part of the handed-over book improved recoveries in 2014. Better collection experience had a positive impact on the valuation of the handed-over book. We value our handed-over book at the contractual all in rate. None of the loans valued and identified for collection have prescribed.

# Vintage graphs

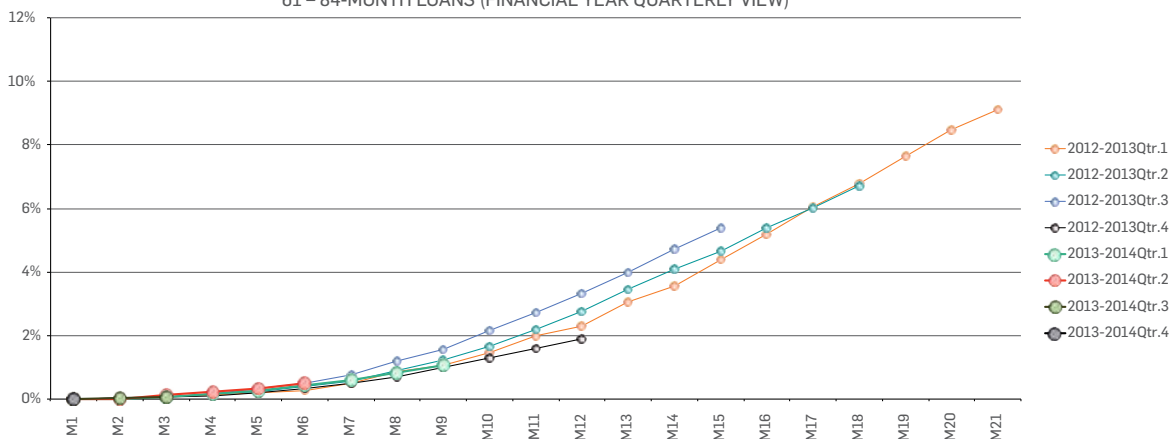




49 – 60-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



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



## Transacting

### *Net transaction fee income of R1.9 billion*

Net transaction fee income grew by 43% to R1.9 billion compared to R1.3 billion in the 2013 financial year.

Net transaction fee income amounted to 32% of net banking income after impairment charges, up from 26% for the 2013 financial year. Net transaction fee income is now 59% of operating expenses (2013: 43%).

Gross transaction fees amounted to R2.8 billion and increased by 33% while transaction fee expenses, which consist of interchange charges from other banks and service providers, grew by 14% to R860 million.

Growth was driven by a continued increase in clients and the expansion of Capitec's distribution network. A total of 5.4 million active clients access Capitec's money management solutions through a branch network that grew to 629 branches (2013: 560) countrywide, a total of 2 918 own and partnership ATMs (2013: 2 554), 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 24 329 own POS devices (2013: 19 955), a network of national and international POS devices of other financial institutions and cash withdrawals and money transfers at retail partners.

## Funding

### *Conservative debt-to-equity ratio maintained*

The debt-to-equity ratio increased marginally to 3.7:1 from 3.6:1 due to continued strong growth in retail deposits. Total deposit funding increased by R6.4 billion to R35.4 billion. The growth in deposit funding was driven by retail deposits which increased 37% to R23.6 billion.

### *Strong retail deposit growth continues*

Retail call savings grew by 41% and totalled R14.6 billion. The number of savings accounts increased by 20% and the average balance per account increased by 18% when compared to the end of February 2013.

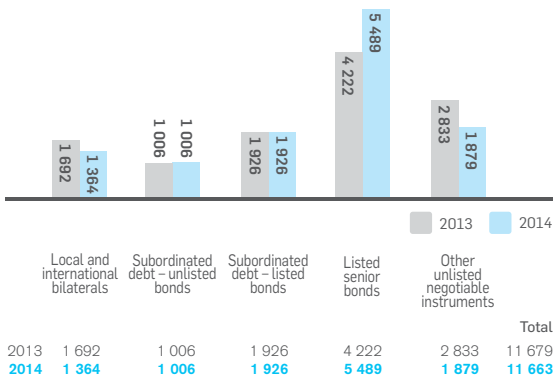
### *Retail fixed savings now 43% of term funding*

Retail fixed savings amounted to R9 billion, a growth of 31%. The weighted average maturity of retail fixed funding was 18 months at the end of February 2014 (2013: 18 months). The number of accounts grew by 27% and the average balance per account grew by 3% compared to February 2013. Retail fixed savings grew to 43% of total term funding (2013: 37%) surpassing the target of 40% set at the end of the previous year. Management maintains a preference for fixed-term retail funding due to the lower average pricing, lower concentration and lower refinancing risks.

### *Reduced demand for wholesale funding*

The value of wholesale deposits remained the same as the previous year at R11.7 billion. We successfully rolled and extended a wholesale bond of R1.3 billion on the Domestic Medium Term Note programme (DMTN) in May 2013. Slower loan sales mean less demand for funding and the growth in retail deposits was sufficient to meet this need. Consequently, no additional bond funding was issued on the DMTN program. The weighted average maturity of wholesale funding was 36 months (2013: 42 months). The composition of wholesale funding by funding instrument is as illustrated in the following chart.

WHOLESALE FUNDING BY NATURE (R'm)



## Liquidity

### Conservative liquidity policy maintained

There has been no change in our liquidity policy over the past year. The management of liquidity continues to take preference over the optimisation of profits. Management's liquidity philosophy remains cautious and conservative. This conservatism at times results in the holding of cash in excess of immediate operational requirements.

### Early compliance with new Basel 3 ratios

Despite difficult economic conditions the bank has not experienced volatility in its retail funding base and Capitec Bank comfortably complies with the two new Basel 3 liquidity ratios, the liquidity coverage ratio and the net stable funding ratio, in advance of the 2018 and 2019 implementation dates, respectively.

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.

### 31% of balance sheet assets invested in cash and highly liquid instruments

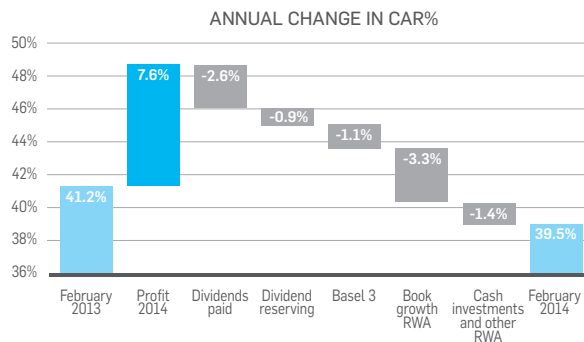
Surplus funding and liquidity buffers are invested in highly liquid and high-quality, interest-bearing instruments, selected to minimise the net carrying cost of surplus funds. 31% of the balance sheet is invested in these assets. Instruments with maturities greater than three months but less than 12 months from the date of acquisition are included in investments designated at fair value and comprise treasury bills (97%) issued by the South African National Treasury and negotiable certificates of deposit (3%) issued by a large South African bank.

## Capital

### No need for additional capital

Capitec Bank remains well capitalised with a capital adequacy ratio of 39.5% (2013: 41.2%). Low loan growth has meant that there has only been a moderate demand for capital. The profitability of the bank is funding the capital demand after paying and reserving for dividends.

The decline in the ratio is mainly driven by Basel 3 adjustments which are phasing out existing preference shares and subordinated debt instruments which do not have so-called 'bail-in' or 'loss absorbency' clauses. The impact of the Basel 3 phase-out changes in 2014 was 1.1% on the capital adequacy ratio. There is a lack of clarity in the market regarding the most appropriate terms



and conditions for new Basel 3 compliant instruments, validating our decision to have done a rights issue to ensure that we are well capitalised during this period of market adjustment.

### Credit rating

On 19 December 2013, Moody's affirmed Capitec Bank's Baa3/P-3 international issuer ratings and A2.za/P-1.za national-scale issuer ratings, with an outlook of stable. The ratings continued to recognise Capitec Bank's strong loss absorption capacity and comprehensive provisioning policy. The outlook factored in the challenging operating conditions in unsecured lending which were likely to result in higher loan arrears and provisioning. There was cognisance of the growing retail deposit base which has reduced funding concentrations and broadened the bank's funding profile, robust profitability and solid capitalisation levels.

### Cost structure

#### *Cost-to-income ratio down to 33%*

The cost-to-income ratio of banking activities improved from 39% for the 2013 financial year to 33% for the 2014 financial year.

Income from banking operations increased by 27%, while operating expenses increased by 6%, mainly due to growth in the branch network and corresponding growth in the number of employees. The increase in operating expenses amounted to R181 million. Variable remuneration costs at R129 million were 61% lower than the previous year. Employment costs represent 49% of total operating expenses compared to 53% in 2013. Capitec Bank currently employs 9 070 people, compared to 8 308 at the end of February 2013.

Fraud declined 49% to R38 million mainly as a result of the migration of clients to the chip-and PIN-based debit MasterCard.

The Capitec Bank branch network grew to 629 branches, an increase of 69 branches. Based on the average number of income-generating outlets for each year, the operating expense per outlet for the 2014 financial year amounted to R5.5 million compared to R5.8 million for the 2013 financial year. This is a decrease of 5%.

Depreciation and amortisation comprised 10% of total banking expenses and increased 32% to R325 million, as investment in branch and IT infrastructure continued. Advertising and marketing, communications and consumables all increased between 11% and 13%. Together they comprise 12% of total banking expenses and amount to R399 million. Operating lease costs increased 18% to R242 million due to the increase in branches and our strategy to site more branches in malls where rentals are costly.

### Employment costs

		Strategic management	Senior management	Other employees	Total
<b>Employees</b>	Number	10	82	8 978	9 070
<b>Remuneration</b>					
<b>Fixed cash remuneration</b>	R'm	41	87	1 288	1 416
Cash staff performance bonus	R'm	–	–	8	8
Cash bonus bank	R'm	–	4	–	4
Share options	R'm	49	11	–	60
Share appreciation rights	R'm	46	11	–	57
<b>Variable remuneration</b>	R'm	95	25	8	129



## Regulation

2014 has been a year of significant activity on the regulatory front. The National Credit Act has been in a process of review and a number of changes are imminent

on this front and the SARB has been reviewing fees in the banking industry. The table below summarises the status of these developments and their impact on Capitec Bank.

<b>Regulator</b>	<b>Development</b>	<b>Impact</b>
SARB	Changes have been made to ATM interchange fees.	There is no material impact on Capitec Bank.
SARB	Changes to card interchange fees	The outcome of this investigation will soon be made public. Interchange fees will reduce but growing business volumes will offset this.
NCR	Capping of fees on credit life and retrenchment insurance	Capitec Bank does not charge credit life or retrenchment insurance. The impact will be beneficial for Capitec Bank as this will result in many credit providers revising their risk appetites lower. It will become more difficult for clients with existing debt to over-indebt themselves.
NCR	Removal of adverse data from credit bureaux	We have made appropriate arrangements to ensure our credit granting standards are not compromised.
NCR	Review of interest and fees	Parliament has indicated that a review should be done of the current levels of interest and fees. There are no further developments at this time.
NCR	Development of affordability guidelines	This will have a positive benefit on Capitec Bank as it may result in more uniform and lower risk appetites for credit providers across the industry. It will become more difficult for clients with existing debt to over-indebt themselves. We support this initiative.
NCR	Prescription and sales of handed-over debt	This has no impact on Capitec Bank as we have no debt on our books that has prescribed.

## Dividends

The board of directors considers the capital and funding requirements of the business before declaring dividends.



**André du Plessis**  
*Chief financial officer*

How do  
we lead?

02

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

*Our core values*  
**simplicity**  
**affordability**  
**accessibility**  
**personal service**



## Focused leadership

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

### Board of directors

The board of directors is responsible for Capitec Bank 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 (64)**  
BComm LLB

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

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

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

**Petrus Johannes Mouton (37)**  
BComm (Maths)

*Chairman of the social and ethics committee*

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

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

**Riaan Stassen (60)**  
BComm (Hons), CA(SA)

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

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

## Independent non-executive directors

**Reitumetse Jacqueline Huntley (51)**  
BProc LLB

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

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

**John David McKenzie (67)**  
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 Wesgro and is the chairman of the UCT Foundation.

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

**Nonhlanhla Sylvia Mjoli-Mncube (55)**  
BA, MA (City and regional planning)  
*Lead independent director*

Nonhlanhla manages her own company, Mjoli Development Group, and was the economic advisor to a former Deputy President of South Africa. She has worked as a town and regional planner in South Africa and as a survey research supervisor at Washington State University. She was an executive director of a subsidiary of Murray & Roberts. She was the chairman of the National Urban Reconstruction and Housing Agency (NURCHA), the Rural Housing Loan Fund, Women for Housing and the Open Society Institute in South Africa. She is a fellow of the Massachusetts Institute of Technology (MIT, USA) and a Harvard University Leadership alumnus.

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

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

**Chris Adriaan Otto (64)**

BComm LLB

*Chairman of the human resources and remuneration committee*

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

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

**Gerrit Pretorius (65)**

BSc, BEng, LLB, PMB

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

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

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

**Jacobus Pieter van der Merwe (65)**

BA, CTA, CA(SA)

*Chairman of the audit committee*

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

Pieter was appointed to Capitec Bank's board on 27 September 2007.

## Executive directors

**Gerhardus Metselaar Fourie (50)**

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 Bank's board on 20 September 2013.

**André Pierre du Plessis (52)**

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 Bank's board on 2 May 2002.

## Executive management committee

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

### **Jacobus Everhardus Carstens (45)**

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 (57)**

BComm (Hons), MBA

*Executive: marketing and corporate affairs*

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

### **Hendrik Albertus Jacobus Lourens (48)**

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 (47)**

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 (46)**

BComm (Hons), CA(SA)

*Executive: card services and business development*

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

### **Christiaan Oosthuizen (59)**

*Executive: information technology*

Chris joined Capitec Bank as head of information technology in 2000. He previously held the position of chief executive of information technology at Boland PKS, where he was employed from 1976 to 2000.

### **Christian George van Schalkwyk (59)**

BComm LLB, CA(SA)

*Executive: risk management and company secretary*

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



**Leonardus Venter (52)**

BA (Hons), MA (Industrial psychology)

*Executive: business support centre*

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

**Development members**

There are two development seats on the executive management committee to provide senior employees with the opportunity to gain experience at executive level. The incumbents rotate annually and the seats were filled by Lindie Mlilo (Business operations manager: Western Cape) and Ernest van Riet (Manager: products) during the 2014 financial year.

The development members for the 2015 financial year are Uvesh Betchu (Operations manager: Head office) and Marthinus Janse van Rensburg (Head: Legal department).

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



## Corporate values

### Ethics

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

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

These corporate values are manifested in a range of policies that specify ethical conduct expected from all employees and are communicated to employees on various occasions. Matters such as our commitment to legal and regulatory compliance, receiving of bribes and guidelines on receiving and giving of gifts, are addressed by these policies and are reviewed on a regular basis. 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 Bank's integrated risk management process

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

## Integrated risk framework

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

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

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

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

The primary objectives of the framework are to:

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

## Governance

The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board discharges its duty through policies and frameworks supported by board committees. Executive management, together with a number of subcommittees, 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. Risk management is seen as the responsibility of each and every employee.

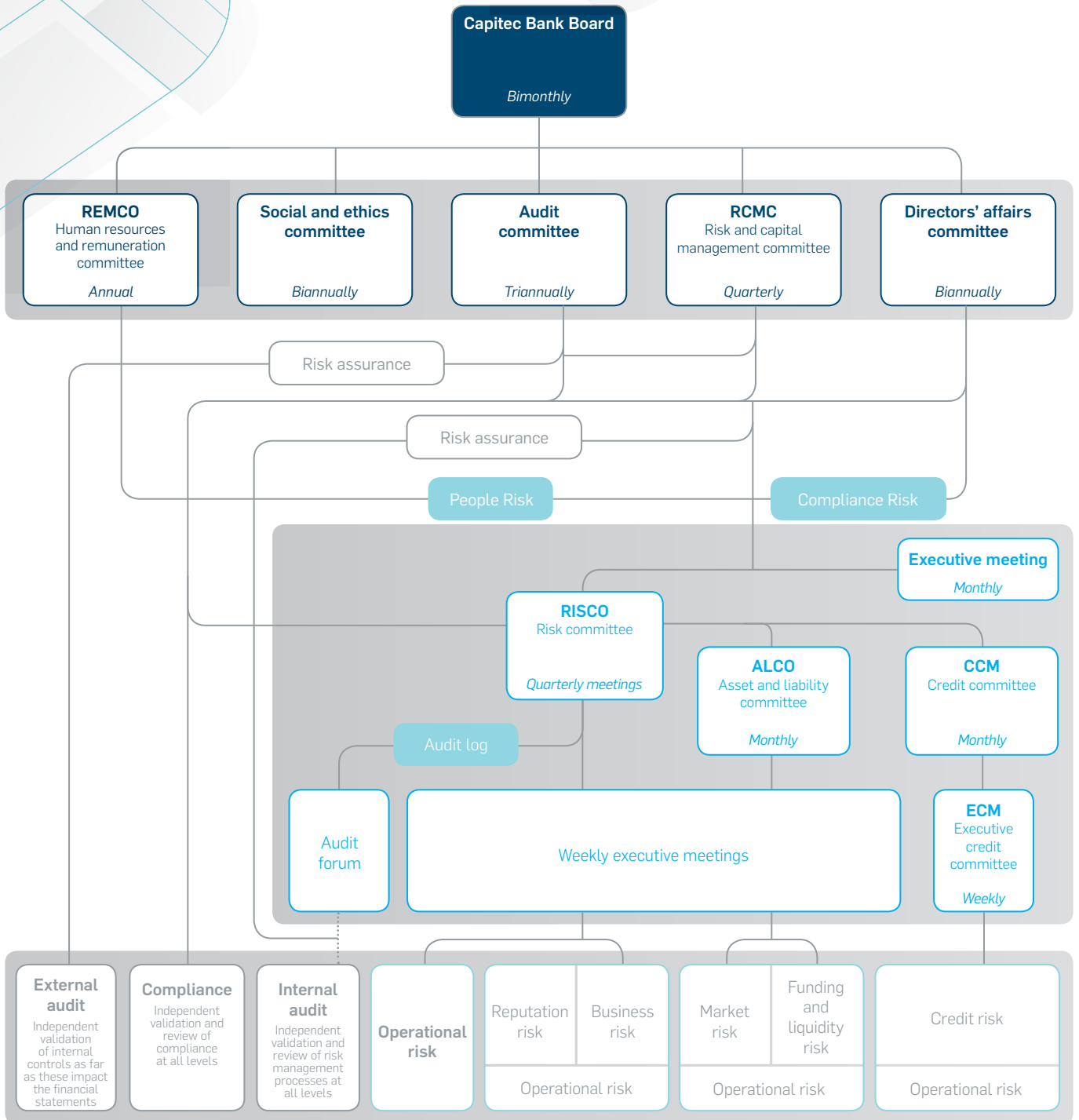
Virtually all the principles set by King III have been applied during the reporting period, with minor exceptions.

Shareholders are referred to the website ([www.capitecbank.co.za](http://www.capitecbank.co.za)) where full details regarding the application of the principles set by King III are provided.

### Governance structure

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

GOVERNANCE STRUCTURE



## The board of directors

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

### *Composition*

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

The composition of the board ensures that there is a balance of power and authority so that no one individual has unfettered decision-making powers. The roles of chairman and CEO are separated and the chairman is a non-executive director who is considered by the board to best be able to fulfil the role of chairman. Nonhlanhla Mjoli-Mncube was appointed as lead independent director on 18 February 2013.

### *Assessment of independence*

The independence of independent non-executive directors that have served for a period of nine years and factors that may impair their independence are evaluated. The board reconsidered Chris Otto's relationship with Capitec Bank and after considering the facts, resolved that he be categorised as independent. Nonhlanhla Mjoli-Mncube has served on the board for longer than nine years, but the board is satisfied that she remains

sufficiently independent. The remainder of the independent directors have served for periods shorter than nine years.

### *Appointment process*

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

### *Development*

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

### *Performance assessment*

The board is assessed annually via an internally conducted process 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 2014 financial year and is satisfied that it continues to function well.

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

### *Meetings and quorum*

The board meets six times a year and a quorum comprises a majority of directors.

### *Committees*

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

## Board committee

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

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

\* 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.

\*\* Mr Stassen was appointed to the RCMC on 31 January 2014.

### Attendance of meetings by board members

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

<sup>(1)</sup> Attendance by invitation.

<sup>(2)</sup> Mr GM Fourie was appointed to the boards of Capitec and Capitec Bank on 20 September 2013, but attended the May, June and September board meetings by invitation.

<sup>(3)</sup> Mr R Stassen, a non-executive director, was appointed to the RCMC on 31 January 2014.

### Company secretary

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

The qualifications and expertise of the company secretary are detailed in chapter 2 of this report. The directors' affairs committee has reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and has noted that the company secretary performed

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

### Conflict of interest and dealing in securities

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

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

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

### Independent assurance

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

Management encourages regular co-ordination and consultation between the external and internal auditors to ensure an efficient audit process.

### External audit

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

External audit fees are set annually in advance by the audit committee in a manner which should not impact the scope of the audit. The extent of the audit determines



the audit fee. Non-audit services rendered by the external auditors are limited to *ad hoc* tax advice and other assurance-related services within the parameters of a policy approved by the audit committee, limiting such expense to 40% of the annual audit fee. Details of amounts paid to the external auditor are included in note 23 to the annual financial statements.

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

#### *Internal audit*

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

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

- evaluation of the appropriateness of and adherence to company policies and procedures;
- prevention of fraud, unethical behaviour and irregularities;
- production of quality management information; and

- sound business processes and associated controls.

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

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

## Risk universe

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

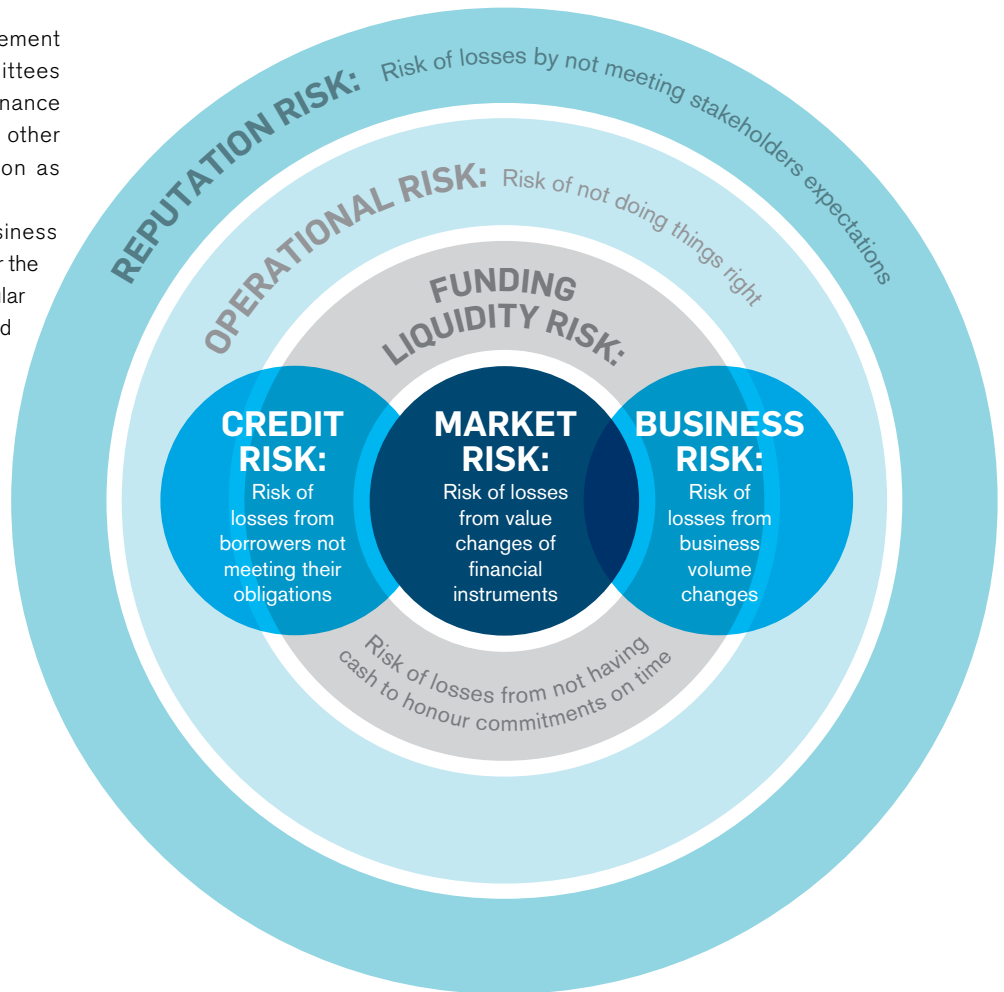
The risk universe is composed of interconnected groups of risks as illustrated in the diagram that follows.

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

- *Risk ownership* – heads of business carry the primary responsibility for the risks in the organisation, in particular with respect to identifying and managing risk appropriately.

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

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



## Reputation risk

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

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

## Credit risk

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

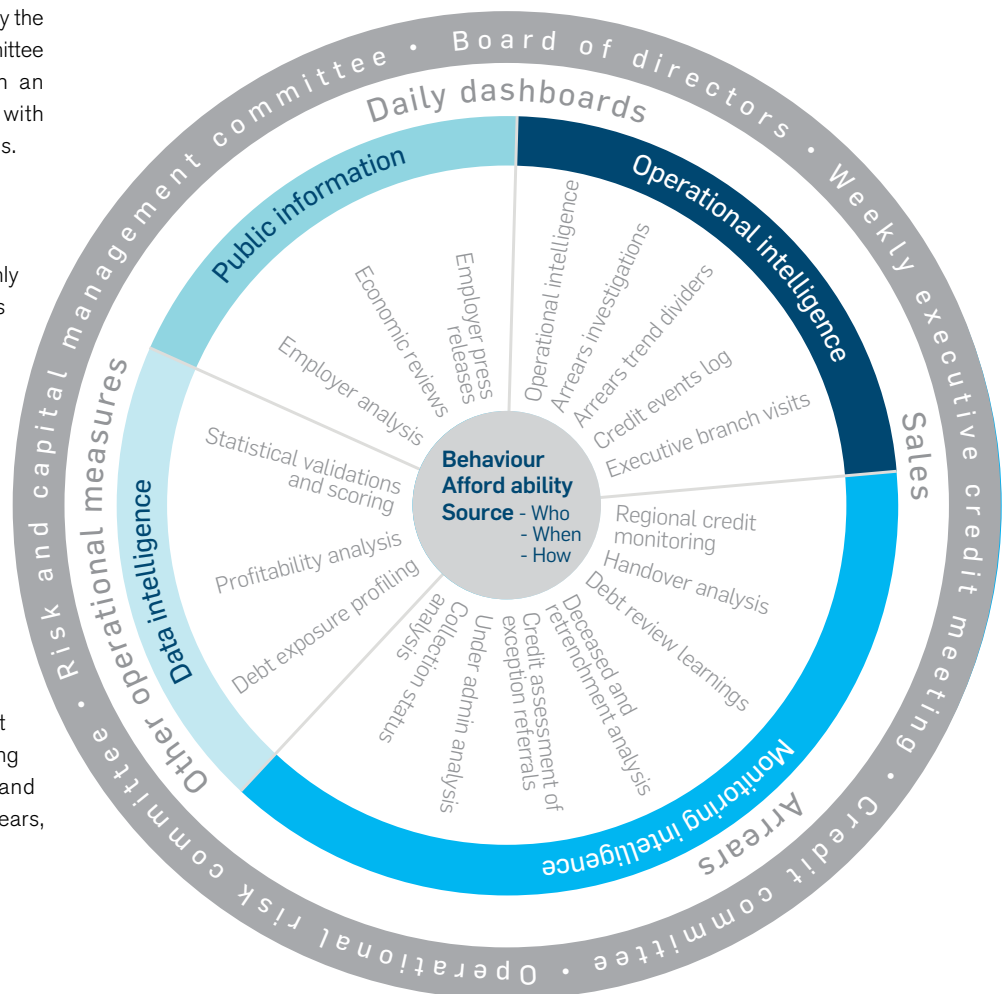
### Governance

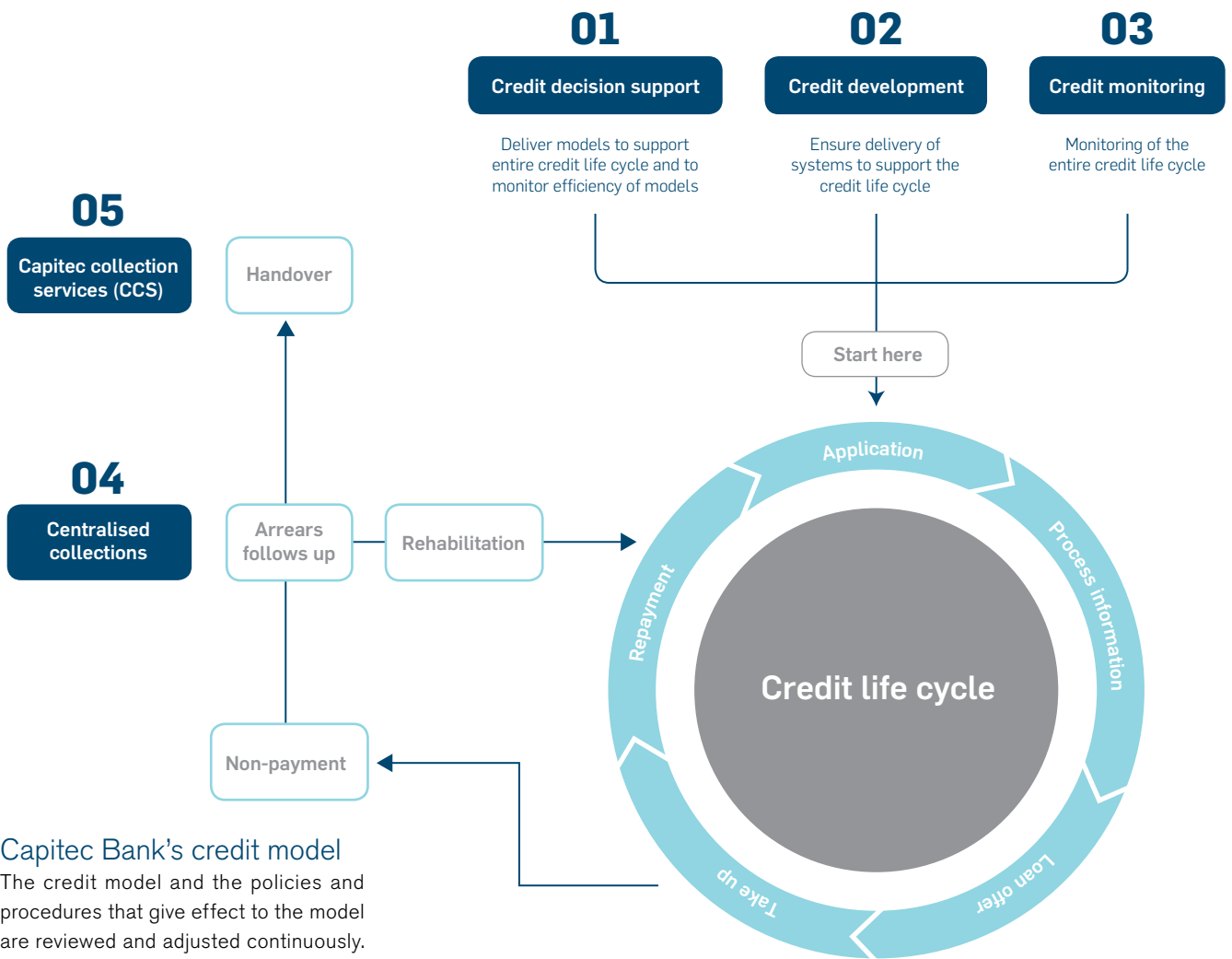
Credit risk management is overseen by the credit committee, a subcommittee of the RCMC. The composition of the credit committee includes a cross-section of management.

The committee determines credit policy and meets monthly. At the meeting the activities of the credit division and operations, new business results, arrears,

provisioning, recoveries and regulatory compliance are evaluated. Policies are reviewed annually in their entirety; however, they are monitored continuously and the executive credit committee recommends changes at credit committee meetings as and when required.

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





### Capitec Bank's credit model

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

#### Granting

The credit granting decision is based on the client's behaviour (willingness to pay), affordability (ability to pay) and source of payment (when, who and how).

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

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

### *Collection*

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

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

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

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

All rescheduling is governed by the credit granting policy. For each reschedule, policy requires that a formal credit assessment

be performed and that the new terms are contractually concluded. Rescheduling may not be performed more than twice and then only in certain circumstances. The available term extension options are limited, based on the circumstances and the original term of the loan.

### *Recovery*

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

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

Capitec Bank insures loan balances against the death and retrenchment of clients and does not sell credit life insurance policies to clients.

### **Rescheduling – an important risk mitigation tool**

*Rescheduling refers to changing the original terms of the loan contract, as formally agreed by both the client and Capitec Bank. Rescheduling occurs for administrative reasons and to assist clients who are experiencing difficulty in making their repayments with the aim of limiting credit losses. It is a process that is followed by most credit providers with longer-term loans.*

*Society expects that companies should act in an ethical manner. For clients who encounter financial strain, this means receiving help from their bank. In South Africa it is not unusual for clients to be involved in strike action which results in a temporary strain on their cash flows. Another example is helping clients who have reduced income when on maternity leave. In these cases handing the client over for non-payment would be inappropriate.*

*Assisting clients is part of the Capitec Bank client service approach. However, rescheduling is also a practical credit management tool to limit credit losses. It allows for early engagement with the client. Rescheduling is centrally managed with defined limits, policies and monitoring. Not all clients will qualify to be rescheduled. Policy aims to optimally balance the needs of shareholders and clients and draws the boundary on how far the bank can go to accommodate clients.*

Quality of new business	Arrears dashboard	Roll rate analysis	Credit events log
First payment default reports are early indications of the quality of loans granted.	Arrears are reported, analysed and tracked daily.	Arrears trends for new and existing business are monitored using roll rates (these profiles are also submitted to the National Loans Register).	Credit events are registered on a central log.
Vintage graphs are utilised as a measure that the quality of credit granted was in line with what was expected in terms of profitability.	Deviations in an individual employer's arrears are investigated on a daily basis to determine if there is an employer problem (e.g. strikes, retrenchments), a pay-date problem or a NAEDO processing problem.	Variations of the roll rate tables are utilised to understand the rehabilitation of accounts in arrears and to derive new credit granting rules and collection strategies.	System flags drive appropriate mitigating action.
Accept rates, not taken-up rates, and turnaround times are monitored from the branch to bank levels and evaluated from all business perspectives.		These payment profiles form the basis of the loan impairment models and the unexpected loss calculations.	
Quality control assessments of the take-home pay calculations by branches are performed centrally.			

### Monitoring

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

The credit risk management model is continuously monitored to ensure effectiveness and compliance to improve levels of arrears against the backdrop of changes in the market. Changes in credit exposures and consumer debt levels trigger process and policy responses. Scoring, affordability assessments, pay-

date management, collections and the end-to-end automation of processes are continuously enhanced in reaction to trends observed in the market.

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

### Decision support

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

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

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

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

All rescheduled loans are managed as a separate group of loans to enable accurate impairment assessment. Loans that were in arrears at the time of rescheduling are regarded as higher risk and are separately disclosed in note 6 of the annual financial statements.

The level of impairment on 'arrears rescheduled in the past six months' is higher than the impairment of loans classified as current.

For the impairment calculation, the rescheduled loan is only reclassified to current if the loan is up-to-date six months after being rescheduled. If a rescheduled account goes into arrears, it forms part of the loans in arrears classification.

The performance of the rescheduled book is monitored closely by the credit committee.

#### *Development*

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

Newly available technologies to enhance and automate business processes are

investigated and key economic indicators are monitored to build a thorough understanding of the needs and financial well-being of our target market. This area is closely aligned with operational, compliance and IT risk management.

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

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

#### Counterparty credit risk

Capitec Bank has limited counterparty credit risk because it does not operate a trading book. The only exposures to counterparty credit risk are on hedges entered into to mitigate risk in the banking book, and institutional counterparty risk.

Refer also note 26.1 to the annual financial statements.

#### Investment and counterparty risk

Capitec Bank has a low risk appetite regarding the investment of surplus cash. It is invested in short-dated instruments with high market liquidity such as national treasury bills, SARB debentures and cash on call with highly rated banks. From time to time, and particularly when the bank has large volumes of surplus cash, it will also invest in the money market unit trusts

of large fund managers to achieve a level of risk diversification, subject to sufficient yield proportionate to the additional risk of investing in an instrument with no capital guarantee.

Credit risk related to the investment of surplus cash resources with banks and money market funds is managed by ALCO. ALCO proposes a list of counterparties and related limits which are approved by the RCMC and monitored by the credit committee. A separate large exposures committee evaluates and approves exposures to counterparties in accordance with the limits as specified in the Banks Act.

The selection of corporate insurers to insure the loan book against death and retrenchment is based on sufficient underwriting capacity.

## Analysis of regulatory credit exposure

Basel III exposure categories R'000	Average gross exposure <sup>(1)</sup>		Aggregate gross year-end exposure <sup>(2) (4)</sup>		Exposure post risk mitigation <sup>(2) (3) (4)</sup>		Risk weights <sup>(5)</sup>
	28 Feb 2014	28 Feb 2013	28 Feb 2014	28 Feb 2013	28 Feb 2014	28 Feb 2013	%
<b>On balance sheet</b>							
Corporate <sup>(6)</sup>	895 174	509 156	606 992	673 580	606 992	673 580	100
Sovereign <sup>(7)</sup>	4 790 835	3 392 818	5 342 807	3 877 189	5 342 807	3 877 189	–
Banks (claims < 3mths original maturity)	4 265 744	2 305 840	3 677 314	2 052 743	3 677 314	2 052 743	20
Banks (claims > 3mths original maturity)	306 222	–	777 079	–	777 079	–	50
Banks (Derivatives > 3mths Aaa to Aa3)	–	9 955	–	19 075	–	19 075	20
Banks (Derivatives > 3mths A1 to Baa3)	177 802	4 050	223 746	2 250	223 746	2 250	50
Retail personal loans							
– performing	31 264 885	27 194 675	30 752 340	28 860 404	30 752 340	28 860 404	75
– impaired <sup>(9)</sup>	2 417 236	1 407 058	2 921 125	1 777 034	2 921 125	1 777 034	100
<b>Subtotal</b>	<b>44 117 898</b>	<b>34 823 552</b>	<b>44 301 404</b>	<b>37 262 275</b>	<b>44 301 404</b>	<b>37 262 275</b>	
<b>Off balance sheet</b>							
Corporate guarantees	–	1 786	–	–	–	–	100
Retail personal loans							
– retail guarantees	–	500	–	1 000	–	1 000	75
– committed undrawn facilities	5 398	537	5 250	2 716	5 250	2 716	75
– conditionally revocable commitments <sup>(10)</sup>	398 689	663 422	440 423	725 010	440 423	725 010	–
<b>Total exposure</b>	<b>44 521 985</b>	<b>35 489 797</b>	<b>44 747 077</b>	<b>37 991 001</b>	<b>44 747 077</b>	<b>37 991 001</b>	

As required by the Banks Act and Regulations (which incorporate Basel 3):

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

<sup>(2)</sup> Items represent exposure before the deduction of qualifying impairments on advances.

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

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

<sup>(5)</sup> The risk weightings reflected are the standard risk weightings applied to exposures, as required by the Banks Act. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade, rating to a risk-weight percentage using the mapping table that follows. The risk weightings for retail exposures are specified directly in the banking regulations.

<sup>(6)</sup> 94% (2013: 97%) of corporate aggregate gross year-end exposure relates to investments in money market unit trusts.

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

<sup>(8)</sup> Qualifying collateral in the form of highly liquid securities, arising from resale transactions, is deducted to arrive at post risk mitigation values. All resale agreements were in respect of RSA treasury bills and were transacted via STRATE.

<sup>(9)</sup> An ageing of impaired advances is shown in note 6 to the annual financial statements.

<sup>(10)</sup> These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet his contractual obligations or where the bank has determined that the client's credit risk profile has changed. 21.3% (2013: 17.8%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.



### Rating grades and related risk weights

Long-term credit assessment	Aaa to Aa3 %	A1 to A3 %	Baa1 %	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	Below B3		
Corporate entities	20	50	100	150		100
Short-term credit assessment	P-1	P-2	P-3	Other		
Banks and corporate entities	20	50	100	150		

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

## Market risk

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

Capitec Bank is not exposed to market risk or position risk on active trading activities as understood in terms of the Banks Act because it does not operate a trading book. Exposure to market risk is largely limited to interest rate risk on the banking book.

### Governance

Market risk management is overseen by ALCO, a subcommittee of the RCMC. The committee meets monthly.

### Interest rate risk

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

The principle of the ALM policy is that management must not take speculative or trading positions on the banking book. 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 achieve this, long-term floating-rate liabilities may be swapped to fixed rates.

Interest rate risk appetite is monitored in terms of set limits applied to the impact of changes in interest rates on the net present value of equity. Capitec Bank has a high level of equity relative to liabilities and this allows ALCO to act on a mismatch between assets and liabilities in line with its view on interest rates. The cost of swapping floating exposure is assessed against the probability and quantum of costs that could arise from moderate to large interest rate

shocks. In addition, earnings at risk are assessed using a 12-month rolling budget. Yield curve developments, money market interest rates, an economic evaluation with analysis of the likely impact on interest rates as well as a re-pricing analysis are used to address yield curve, basis and re-pricing risk.

Based on its assessment of the information available, ALCO approves interest rate pricing on funding and loan products, transaction fees and authorises any swap transactions.

Refer also note 26.3 to the annual financial statements.

### Regulatory sensitivity analysis of equity – 200 basis point shift

	2014		2013	
	R'000	%	R'000	%
Increase	(317 959)	(3.3)	(377 110)	(3.3)
Decrease	321 189	3.3	382 024	3.4

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

### Equity risk

Capitec Bank 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. Capital equipment and technological support services that are imported result in limited exposure to currency fluctuations. However, these transactions are hedged by means of forward exchange contracts as and when they are undertaken.

Refer also note 26.4 to the annual financial statements.

### Hedging of market risk

The authorised use of derivative instruments is restricted to their use for risk mitigation. Interest rate swaps are used to convert floating-rate to fixed-rate funding, to achieve the objective of matching the rate nature of assets and funding. Currency swaps are used to convert any foreign currency exposure arising on foreign denominated funding to Rand. Forward foreign exchange contracts are used to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities. Any hedges used cover the complete exposure on the underlying transaction.

Refer also notes 37 and 38 to the annual financial statements.

## Business risk

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

Business risk management is overseen by the RISCO, a subcommittee of the RCMC. RISCO meets quarterly. The potential impact of business risk is assessed by management using stress-testing and break-even analyses.

Daily sales volumes are monitored by executive management, and the branch management operating system ensures that branches maximise sales opportunities.

## Stress testing

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.

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.

## Funding and liquidity risk

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

### Governance

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

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

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

- Wholesale deposit funding is limited, in the main, to contractual maturities of at least two months and no paper has been issued with an initial maturity of less than 12 months in the past few years.
- The utilisation of short-term retail deposit funding is limited to funding net short-term cash flows
- In terms of the Banks Act, adequate liquid assets must be maintained to meet the liquid asset requirement, fund the reserve account and maintain collateral

for clearing balances on the SAMOS system account

- No reliance is placed on interbank facilities as a funding mechanism. Treasury management may, however, use available unsecured facilities from time to time. Usage of interbank facilities is monitored and reported to ALCO.

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

### Daily cash management

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

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

### Funding management

Management is cautious in assessing the relative permanency and value distribution of wholesale and retail funding sources. For fixed-term funding, efforts are directed towards managing roll-over risk and actively pursuing medium- and long-term funding opportunities. For call deposits, attention

is focused on managing the 'core' or 'stable' element within the deposit base. This element is estimated using statistical techniques with due consideration of client behaviour. Internal definitions of core and fluctuating deposits are formally approved by ALCO. Call balances are monitored on a daily basis.

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

Treasury management assesses the concentration risk within the funding portfolio and maintains a well-diversified wholesale and retail funding base.

Refer note 13 to the annual financial statements for details of the funding portfolio.

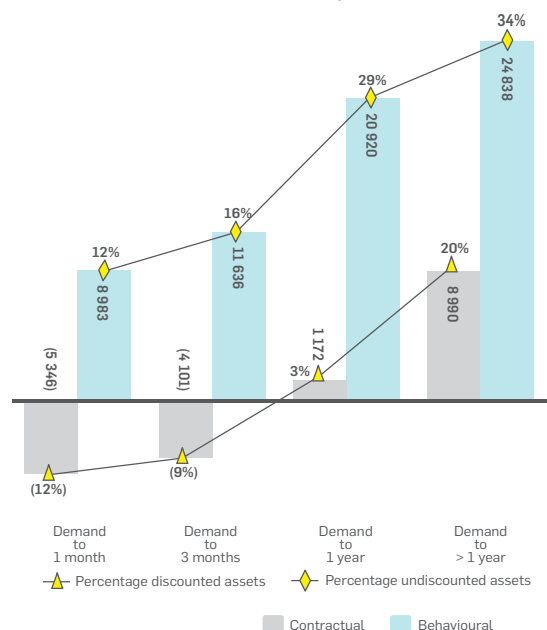
### Liquidity measurements

#### *Contractual and behavioural liquidity mismatches*

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

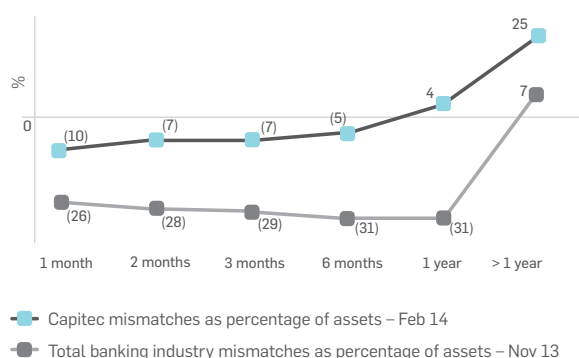
The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. Ninety two percent (2013: 90%) of retail demand deposits is reflected as stable based on a one standard deviation measure of volatility, which is considered reasonable for business as usual conditions.

### CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



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

### CAPITEC MISMATCH AS A PERCENTAGE OF ASSETS RELATIVE TO THE INDUSTRY



### The LCR

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

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

LCR	2014	2013
LCR%	1 689	1 534
High-quality liquid assets (R'm)	6 753	5 118
Net outflow <sup>(1)</sup> (R'm)	400	334

<sup>(1)</sup> As Capitec Bank 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.

Basel has changed the calibration of the LCR, effective January 2015. If these changes were applied as at 28 February 2014, it would have had an immaterial effect on the LCR%.

### The NSFR

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

NSFR – Group	2014	2013
NSFR%	131	116
Available stable funding (R'm)	29 533	32 191
Required stable funding (R'm)	38 786	27 838

Early compliance with these two Basel ratios underscores the organisation's conservative approach to liquidity. Our NSFR% is calculated as per the SARB rules in force.

Basel has proposed adjustments to the calibration of the ratio. These changes make it easier to comply. If these changes were applied at 28 February 2014, the NSFR% ratio would have been 155%.

#### *Liquidity recovery planning*

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 co-ordinated approach to liquidity management.

## Capital management

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

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

Both supply and demand factors impact capital adequacy and must be managed.

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

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

Capitec Bank's principal policies when managing capital are:

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

The two principles above counterbalance each other by aiming to maximise returns for shareholders, but not at the expense of other stakeholders. This approach prevents the adoption of high-risk/high-reward strategies and safeguards

long-term sustainability while maintaining satisfactory returns for all stakeholders. Implicit in this approach is compliance with the prudential requirements of the Banks Act and the maintenance of a strong capital base to support the development and growth of the business.

## Governance

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

Quantitative information on capital adequacy is presented below and in note 26.7 to the annual financial statements.

Stakeholders are referred to the website ([www.capitecbank.co.za](http://www.capitecbank.co.za)) where full details regarding the regulatory disclosures, as required by the Banks Act, are provided.

## ICAAP

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

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

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

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

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

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.

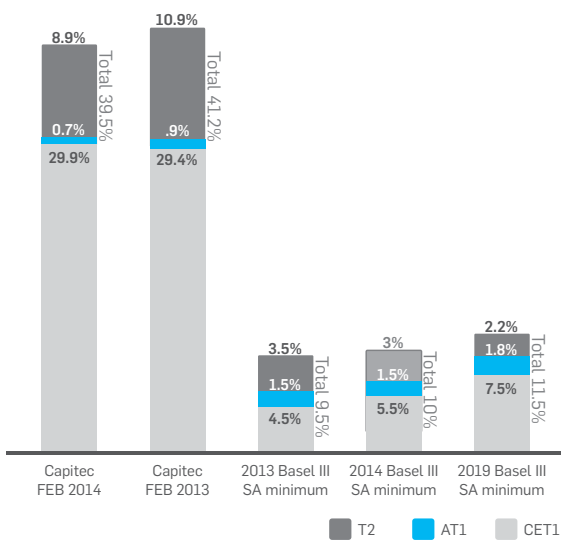
## Basel calculation methods for credit and operational risk capital

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

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

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

### CAPITAL ADEQUACY BY TIER



- *CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.*
- *AT1 – Additional Tier 1 capital – Capitec Bank’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.*
- *Globally, the Basel 3 minimum capital adequacy percentage is 8%.*
- *The 2014 Basel III SA minimum includes the SA country buffer of 2% (2013: 1.5%; 2019: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel III SA minimum includes the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*

- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers include ICR for specific bank risk and D-SIB buffers. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. The 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%.*
  - *Countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis and only when credit growth exceeds real economic growth. Implementation commences in January 2016.*
  - *Haircuts to be applied against minority and third-party capital issued by subsidiaries, which began phasing-in from 2013 at 20% per year.*

## The impact of Basel 3 on capital adequacy measurement

### *Loss absorbency*

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

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

### *Leverage ratio*

The leverage ratio acts as a capital floor to the Basel capital adequacy framework. Capitec had a calculated regulatory leverage ratio of 5 times CET1 capital as at the end of the reporting period (2013: 5 times CET 1). The maximum allowed leverage in South Africa is 25 times CET1 capital.

### *Capital recovery plan*

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

### *Restrictions on the transfer of regulatory capital*

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

## Operational risk

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

### *Governance*

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

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



## Operational risk measurement, processes and reporting

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

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

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

## Operational risk mitigation programmes

### *Financial crime prevention*

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

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

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

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

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

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

### *Insurance*

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

### *Business continuity*

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

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

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

#### *Policies and procedures*

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

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

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

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

#### Compliance risk

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

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

The bank has a dedicated compliance function as prescribed by regulation 49 of

the Banks Act. The compliance function manages the bank's compliance risk – the risk that the controls implemented by the bank to facilitate compliance with the applicable statutory and regulatory requirements are inadequate or inefficient. The compliance universe of the bank consists of all the applicable statutory and regulatory requirements of relevant legislation, regulations and industry codes as well as sound management of the bank.

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

The significant pieces of legislation applicable to Capitec Bank are the main focus of the independent compliance function and management system activities of the bank. This approach achieves a healthy balance of appropriate and sufficient compliance and efficient interaction with stakeholders and business relative to our business activities. The material compliance challenges facing the bank include:

- dealing with the imminent protection of personal information legislation;
- exchange control regulation; and
- continued and high levels of compliance with credit legislation to create and sustain a responsible and compliant credit environment.

In an ever-increasing world of crime, corruption, money laundering and even financing of terrorism, large investments to protect the bank and stakeholders were made during the year. Measures taken include two separate projects to develop and enhance the bank's ability to manage these risks as well as acquiring solutions to enable terror list and politically exposed persons screening, including automated transaction and behaviour monitoring.

The head of compliance reports to the audit committee at every committee meeting and submits compliance reports to both the audit committee and RCMC as required by the Banks Act. All material events of non-compliance are reported to the audit and directors' affairs committees as well as the board of directors. For the reporting period, the compliance officer submitted reports which indicated acceptable and good levels of compliance by the bank to statutory and regulatory requirements. The events of non-compliance listed were all non-material and were either rectified or are in the process of being addressed through systems and process changes. The bank supervision department of the SARB is provided with copies of these reports after every meeting of the abovementioned committees. The compliance officer has annual prudential meetings with the bank supervision department of the SARB and responds to general and *ad hoc* requests for discussion when required.

There were no material regulatory sanctions against or penalties imposed

on the bank as a result of non-compliance during the reporting period.

### Information technology risk

Information technology forms the back-bone of the service that Capitec Bank provides to its clients. Innovative application of technology has enabled the development of uncomplicated, low-priced banking products. Through innovative technology, a cost-effective business process was developed where floor space in branches is used to service clients directly, and back-office functions are centralised. Branches can remain open for longer hours and branch consultants can focus on providing personal service to clients.

During the reporting period, system changes such as a new front-end service flow, which enables side-by-side consulting, and a queue management system, enabled the client to gain more control over in-branch processes. Other changes were to drive the paperless banking process further with the new system and to introduce Optical Character Recognition which assists the consultant to scan a document which pre-populates fields to save time and eliminate mistakes.

### IT governance framework

IT governance is implemented according to the Capitec Bank IT governance policy and the supporting IT governance framework. The framework is based on principles and controls as defined in international standards such as Cobit, ITIL, ISO 25999

and ISO 27001. The governance framework defines how Capitec Bank ensures that the IT strategy is created, approved, reviewed and implemented in a manner that is always aligned with the business strategy.

The IT governance framework also defines the organisational structure as well as the policies and procedures that are required to facilitate good governance and compliance in the areas of technology and information security management.

Weekly executive management meetings, as well as formal IT prioritisation meetings, provide platforms where strategic IT matters are discussed and cross-functional priorities are aligned. Weekly meetings, focused on IT risks and potential performance issues, ensure that situations which could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed on a senior management level. Important issues are thus dealt with at the correct level of urgency and focus.

### IT compliance

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

## Information security management system

The Capitec Bank information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information. The ISMS is based on ISO 27001 and is the responsibility of the information security officer.

Capitec Bank is actively involved in industry initiatives to establish well-co-ordinated security response mechanisms in the event of major security threats to the industry or individual banks.

## Occupational health and safety

A comprehensive health and safety policy is in place. Gerrie Fourie (CEO) is appointed in terms of section 16(1) of the Occupational Health and Safety Act to ensure compliance with this legislation. Structures are in place to ensure that the requisite safety measures are complied with across the bank. Review of the changes made to occupational health and safety measures arising from ongoing compliance and risk assessment, is currently under way.

All injuries and medical incidents on duty, including minor first-aid incidents, are recorded and assessed by one of the 128 health and safety co-ordinators, SHE representatives and first aid officials at head and regional offices. During the period, 33 injuries and five medical incidents occurred on duty, none of which were fatal.

Emergency procedures and equipment, including evacuation chairs and medical equipment, are in place and all health and safety practitioners are fully trained in emergency procedures. Evacuation drills are held at least biannually at head-office and support centres and on an *ad hoc* basis at branch level. All employees are required to participate.

The branch infrastructure was designed to provide for a low-cash environment. The intention includes the safeguarding of employees and clients in branches. Cash deposited by clients is held in drop safes and keys to ATMs and drop safes are held off site. Cash is deposited electronically into the account of a client who then withdraws the required amount at an ATM or other transaction point.

## Employee wellness

The employee assistance programme supports employees with personal health management, counselling services, appropriate financial and legal advisory services and referral to appropriate testing and medical treatment facilities. This is done through an independent service, provided to employees without cost. Regular communication with employees through internal communication channels is aimed at education on subjects such as risks relating to serious diseases, prevention measures and how to deal with such illnesses.

## Managing chronic and life-threatening diseases

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

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

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

## Remuneration risk

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

### Governance

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

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

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

This is detailed in an annually reviewed board-approved charter. In support of its authority, the members of the committee have unrestricted access to all the activ-

ities, records, property and employees of the company. In addition, the committee may access external legal or other independent professional advice to execute its responsibilities as detailed in the charter. As required by Basel best practice, the committee annually considers whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking.

REMCO is responsible for:

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

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

solid link between company performance and employee pay.

### The principles for determining increases

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

### *Employee remuneration*

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

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

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

### *Risk and compliance employees' remuneration established independently*

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

### **Director emoluments**

Non-executive director remuneration is based on a fixed-fee structure not related to attendance of meetings. The chairman of the board is paid a retainer and receives

no further payment for membership of committees. Non-executive directors receive a retainer for membership of the board and for each board committee he/she serves on. No fee is paid in respect of the directors' affairs committee.

The remuneration of the executive directors and the fees paid to the non-executive directors for the 2014 financial year are detailed in note 28 to the annual financial statements. Fees for the 2015 financial year will be submitted for consideration by the shareholders at the annual general meeting scheduled for 30 May 2014. The proposed fees are as follows:

<b>Directors' fees</b>	<b>2015 (R)</b>	<b>2014 (R)</b>	<b>Increase (%)</b>
Chairman of the board	1 200 000	1 040 000	15
Chairman of the audit committee, RCMC and REMCO	200 000	185 000	8
Chairman of the social and ethics committee	48 000	44 000	9
Committee membership	48 000	44 000	9
Board membership	235 000	216 000	9

The chairman has waived any increase in his fee for the past three years (2012 to 2014 financial year).

The permanent members of the executive management committee are the key decision-makers in the bank and as such they fall within the category of prescribed officers as defined in the South African Companies Act. The composition of the committee is detailed in chapter 2 of this report.

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

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

### Components of remuneration

The structure of the remuneration plans described in the following table has not changed materially during the reporting period.

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

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

### Components of remuneration

Component	Employees	Fixed/ variable	Strategy	Policy	Terms and benefits
Basic salary (cash settled)	All	Fixed	Fixed remuneration packages ensure that the total guaranteed cost of employment is clearly defined and controlled. This structure prevents open-ended risks and/or liabilities.	The remuneration package is continuously benchmarked against competitors and the market.	Employees have access to the following benefits: <ul style="list-style-type: none"> <li>• Leave</li> <li>• Partially paid maternity leave</li> <li>• Retirement funding</li> <li>• Healthcare</li> <li>• Disability cover</li> <li>• Death cover</li> <li>• Funeral cover</li> <li>• Education cover for dependants</li> <li>• Financial wellness programme</li> <li>• Employee assistance programme</li> <li>• Education assistance programme</li> <li>• Flexible working hours, where operationally productive and conducive to performance</li> </ul>
Annual performance bonus (cash-settled)	All (excluding senior management bonus plan participants, but including those on the executive share-based plans)	Variable	The annual performance bonus plan was established to fulfil a number of key business objectives such as: <ul style="list-style-type: none"> <li>• Aligning employee interests with shareholder interests</li> <li>• Improving business performance</li> <li>• Supporting stakeholder ideals by allowing employees to share in the success of the business.</li> </ul>	This bonus plan is linked to Capitec's year-on-year growth in HEPS, including a challenging minimum target below which no bonus is awarded. The predefined targets are communicated at the beginning of the financial year.	The annual performance bonus is determined by applying pre-set reward percentages, equal for all participants, that increase along ranges of increased growth in HEPS achieved, to each participant's fixed monthly remuneration package. <p>This bonus is awarded in two tranches. The first in December, based on the interim results, and the second in April, based on the final audited year-end results.</p> <p>No bonus is paid if the minimum predefined target is not met.</p>
Senior management performance bonus (cash-settled)	Senior management (excluding strategic management). 69 participants during the reporting year.	Variable	Capitec Bank's performance is driven by a combination of innovative strategic thinking and dedicated, consistent delivery on our objectives. The senior management performance bonus plan supports the sustained performance-driven culture of the organisation, in a way similar to the annual performance plan.	This bonus plan is also linked to the year-on-year growth in HEPS. The fundamental differences to the annual performance bonus are that: <ul style="list-style-type: none"> <li>• greater incentives are awarded for growth in HEPS;</li> <li>• payment is deferred over a longer period; and</li> <li>• a clawback measure is included.</li> </ul> <p>This continuously motivates innovative long-term strategic thinking and risk management.</p>	The senior management performance bonus is determined by applying pre-set reward percentages (that increase along ranges of increased growth in HEPS achieved), to each participant's fixed monthly remuneration package. <p>The payment of the bonus, however, is deferred over three years. Deferred balances are forfeited in the event that the employee leaves the company.</p> <p>In the event of a decrease in profit on a year-on-year basis, the cumulative deferred bonus balance will decrease with the same percentage.</p> <p>No bonus is paid if the minimum pre-defined growth in HEPS targets are not met.</p>



Component	Employees	Fixed/ variable	Strategy	Policy	Terms and benefits
Share option scheme (equity-settled)	Members of the executive management team and a limited number of senior managers whose delivery on strategic targets is regarded as critical to achieving annual objectives (strategic management). The executive share-based plan had 60 participants during the year.	Variable	<p>The intention of the share-based plans is to retain key employees and incentivise performance aligned with the interests of all stakeholders of the organisation. This strategy ensures that all parties strive towards a common goal, increasing the value of the business.</p> <p>The executive share-based plans are intentionally simplified to avoid a short-term focus as a result of overly complex objectives.</p> <p>REMCO reviews and approves the list of eligible participants and quantum of options and SARs to be issued to participants, aligned to individual responsibility and performance.</p>	<p>Eligible employees are granted options to subscribe for ordinary shares in Capitec at an option price equal to the market value of the share, being the 30-day weighted average value per Capitec share on the JSE immediately preceding the day on which the options are granted. The employees are entitled but not obliged to subscribe for the Capitec shares at the predetermined exercise price.</p>	<p>Both options and SARs are granted annually on an equal basis (50% options, 50% SARs).</p> <p>The share options and SARs mature after three years in tranches of 25% per year. Participants have a six-month period after the date on which the options and SARs mature during which they can be exercised. Unless REMCO resolves otherwise, options and SARs are forfeited if the participant leaves the employ of the company before they have matured and been exercised. This ensures long-term relationships with executive management.</p> <p>As the performance of the share options and SARs is dependent on the market price of Capitec shares, there is an inherent clawback mechanism in these reward instruments. Should the company not perform as expected, it is likely that market discipline would result in a decline in the share price and a lower remuneration, or possibly zero remuneration if the instruments are out of the money, for holders.</p> <p>Refer notes 38 to 40 to the annual financial statements for details regarding the executive share-based plans.</p>
Share appreciation rights scheme (cash-settled)				<p>SARs are granted to eligible employees in equal proportion to the share options. SARs are cash-based but linked to equity performance. Dilution of issued share capital is thus limited as no shares are transferred to the participants. The strike price of the SARs is determined in accordance with that of share options.</p>	
Quarterly sales incentive plans (cash-settled)	Branch employees and sales teams (excluding senior sales managers)	Variable	<p>The quarterly sales incentive plan aims to incentivise branch and sales employees to assist in the growth of the business.</p>	<p>Rewards are based on the achievement of predetermined targets. Performance targets include sales targets (including loan sales, transactional banking and mobile banking) appropriately balanced with arrears and service efficiency targets.</p>	<p>Qualifying conditions include:</p> <ul style="list-style-type: none"> <li>• On-standard performance for the period under review</li> <li>• Clear disciplinary records/conduct during the period under review</li> <li>• Timeous completion of scheduled learning sessions</li> <li>• Regular work attendance during the period under review.</li> </ul>

## Remuneration analysis

Capitec Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	10	82	8 978	9 070	Key performance indicators
<b>Remuneration awards</b>						
<b>Fixed</b>	R'000	40 927	87 164	1 287 799	1 415 890	
Cash remuneration	R'000	40 927	87 164	1 287 799	1 415 890	Note 23
<b>Variable</b>	R'000	94 697	25 577	7 562	127 836	
Cash staff performance bonus	R'000	255	150	7 562	7 967	
Cash bonus bank	R'000	–	3 730	–	3 730	
Share options	R'000	48 888	11 147	–	60 035	Note 23
Share appreciation rights	R'000	45 554	10 550	–	56 104	Note 23
<b>Variable remuneration</b>						
Employees receiving awards	Number	10	82	8 978	9 070	
Non-deferred	R'000	255	1 243	7 712	9 210	
Deferred	R'000	94 442	24 184	–	118 626	
<b>Outstanding deferred remuneration</b>	R'000	192 262	72 594	–	264 856	
Cash bonus bank	R'000	–	11 451	–	11 451	Note 16
Share options	R'000	96 131	30 568	–	126 699	Note 38
Share appreciation rights	R'000	96 131	30 575	–	126 706	Note 39
<b>Deferred remuneration paid out</b>	R'000	190 430	98 043	–	288 473	
Cash bonus bank	R'000	–	19 483	–	19 483	
Share options	R'000	103 662	47 495	–	151 157	
Share appreciation rights	R'000	86 768	31 065	–	117 833	
<b>Employees' exposure to adjustments</b>	R'000	192 262	72 594	–	264 856	
Implicit adjustments	R'000	192 262	61 143	–	253 405	
Post explicit adjustments	R'000	–	11 451	–	11 451	
<b>Total remuneration exposed to adjustments</b>	R'000	192 262	72 594	–	264 856	
Implicit adjustments	R'000	192 262	61 143	–	253 405	
Post explicit adjustments	R'000	–	11 451	–	11 451	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

## Alignment of risk and reward

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

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

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

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

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

What are  
the financial  
results for  
the year?

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

# Frequency

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# Statement of responsibility by the board of directors

Capitec Bank Limited  
(‘the bank’ or ‘Capitec Bank’ or ‘the company’)

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Capitec Bank Limited. The annual financial statements, comprising the balance sheet at 28 February 2014, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors’ report.

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

The directors’ responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the company to enable the directors to

ensure that the financial statements comply with relevant legislation.

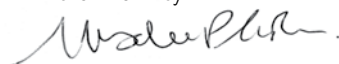
Capitec Bank Limited operated in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded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

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

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

The company’s external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 65.

The annual financial statements set out on pages 62 to 123 were approved by the board of directors and signed on its behalf on 24 March 2014 by:



**Michiel le Roux**  
Chairman



**Gerrie Fourie**  
Chief executive officer

# Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Limited (the company), that for the year ended 28 February 2014, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.



**Christian van Schalkwyk**  
Stellenbosch  
24 March 2014

# Audit committee report

Capitec Bank Limited

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

The committee comprises three independent non-executive directors. 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 determined by a board-approved charter and are detailed in the corporate governance review.

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2014.

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 2014 financial year.

- Approved the terms of the master agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm.
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.
- Reviewed the accounting policies and the group financial statements for the year ended 28 February 2014 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 24 March 2014, 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).



**Pieter van der Merwe**  
Chairman  
24 March 2014

# Directors' report

Year ended 28 February 2014

The directors present their annual report to shareholders for the year ended 28 February 2014.

## Nature of the business

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

## Review of operations

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

## Share capital

Ordinary share capital and share premium amounting to R174.5 million (2013: R2.4 billion) was raised during the year ended 28 February 2014.

No shares were repurchased during the year and no preference shares were issued.

## Dividends to shareholders

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

	2014	2013
Ordinary dividend (R'000)		
Interim	234 055	169 913
Final	530 371	463 489
Preference dividend (R'000)		
Interim	10 244	10 706
Final	10 176	10 077

The final ordinary dividend for 2014 was approved by the directors on 24 March 2014. In terms of the requirements of IFRS no accrual was made for this dividend.

## Directors and company secretary

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

The board of directors changed as follows during the year ended 28 February 2014:

- Mr GM Fourie was appointed to the board of Capitec Bank on 20 September 2013.
- Mr R Stassen retired on 31 December 2013 as chief executive officer and remains involved with Capitec Bank as a non-executive director.

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

## Material events after balance sheet date

The directors are not aware of any event which is material to the financial position of the company that has occurred between the balance sheet date and the date of approval of the financial statements.



# Independent auditor's report

To the shareholders of Capitec  
Bank Limited

We have audited the financial statements of Capitec Bank Limited set out on pages 66 to 123, which comprise the balance sheet as at 28 February 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capitec Bank Limited as at 28 February 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2014, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

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



**PricewaterhouseCoopers Inc.**

Director: DG Malan  
Registered Auditor  
Cape Town  
24 March 2014

# Balance sheet

As at 28 February 2014

R'000	Notes	2014	2013
<b>Assets</b>			
Cash, cash equivalents and money market funds	4	9 665 553	7 143 078
Investments designated at fair value	5	4 757 036	2 022 906
Loans and advances to clients	6	30 050 753	27 930 266
Other receivables	7	219 436	123 580
Derivative assets	8	202 816	13 521
Current income tax assets		22 519	-
Group loans receivable	9	29 983	30 129
Equipment	10	823 957	666 218
Intangible assets	11	201 319	136 380
Deferred income tax assets	12	215 129	272 133
<b>Total assets</b>		<b>46 188 501</b>	<b>38 338 211</b>
<b>Liabilities</b>			
Deposits and bonds	13	35 448 678	29 000 191
Other liabilities	14	873 780	973 857
Current income tax liabilities		-	46 007
Provisions	15	11 451	28 449
Group loans payable	16	11 609	1 584
<b>Total liabilities</b>		<b>36 345 518</b>	<b>30 050 088</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Ordinary share capital and premium	17	5 969 482	5 801 143
Cash flow hedge reserve	18	80 865	(15 925)
Retained earnings		3 533 667	2 243 936
<b>Share capital and reserves attributable to ordinary shareholders</b>		<b>9 584 014</b>	<b>8 029 154</b>
Non-redeemable, non-cumulative, non-participating preference share capital and premium	17	258 969	258 969
<b>Total equity</b>		<b>9 842 983</b>	<b>8 288 123</b>
<b>Total equity and liabilities</b>		<b>46 188 501</b>	<b>38 338 211</b>

# Income statement

Year ended 28 February 2014

R'000	Notes	2014	2013
Interest income	19	9 432 698	7 084 624
Interest expense	19	(2 132 714)	(1 662 467)
<b>Net interest income</b>		<b>7 299 984</b>	5 422 157
Loan fee income		1 306 619	1 496 009
Loan fee expense		(465 916)	(343 209)
Transaction fee income		2 786 393	2 100 594
Transaction fee expense		(859 523)	(751 768)
<b>Net fee income</b>		<b>2 767 573</b>	2 501 626
Dividend income	20	8	9
Net impairment charge on loans and advances to clients	21	(3 976 170)	(2 658 445)
Net movement in financial instruments held at fair value through profit or loss	22	(19 083)	(298)
Other income		245	204
<b>Income from operations</b>		<b>6 072 557</b>	5 265 253
Operating expenses		(3 283 001)	(3 102 091)
<b>Operating profit before tax</b>	23	<b>2 789 556</b>	2 163 162
Income tax expense	24	(780 785)	(641 451)
<b>Profit for the year</b>		<b>2 008 771</b>	1 521 711

# Statement of comprehensive income

Year ended 28 February 2014

R'000	Notes	2014	2013
<b>Profit for the year</b>		<b>2 008 771</b>	1 521 711
Cash flow hedge recognised during the year	18	<b>187 644</b>	(33 430)
Cash flow hedge reclassified to profit and loss for the year	18	<b>(53 219)</b>	14 080
Cash flow hedge before tax		<b>134 425</b>	(19 350)
Income tax relating to cash flow hedge	18	<b>(37 635)</b>	5 345
Other comprehensive income that will be reclassified to profit or loss for the year net of tax		<b>96 790</b>	(14 005)
<b>Total comprehensive income for the year</b>		<b>2 105 561</b>	1 507 706

# Statement of changes in equity

Year ended 28 February 2014

R'000	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings/ (accumulated loss)	Total
<b>Balance at 29 February 2012</b>	3 380 895	258 969	(1 920)	1 210 468	4 848 412
Total comprehensive income for the year	-	-	(14 005)	1 521 711	1 507 706
Ordinary dividend	-	-	-	(467 460)	(467 460)
Preference dividend	-	-	-	(20 783)	(20 783)
Shares issued	2 420 248	-	-	-	2 420 248
<b>Balance at 28 February 2013</b>	5 801 143	258 969	(15 925)	2 243 936	8 288 123
Total comprehensive income for the year	-	-	96 790	2 008 771	2 105 561
Ordinary dividend	-	-	-	(698 620)	(698 620)
Preference dividend	-	-	-	(20 420)	(20 420)
Shares issued	168 339	-	-	-	168 339
<b>Balance at 28 February 2014</b>	<b>5 969 482</b>	<b>258 969</b>	<b>80 865</b>	<b>3 533 667</b>	<b>9 842 983</b>
Notes	17	17	18		

# Statement of cash flows

Year ended 28 February 2014

R'000	Notes	2014	2013
<b>Cash flow from operating activities</b>			
Cash flow from operations	29	7 193 777	2 532 255
Income taxes paid	30	(829 942)	(575 497)
		<b>6 363 835</b>	1 956 758
<b>Cash flow from investing activities</b>			
Purchase of equipment	10	(407 457)	(353 744)
Proceeds from disposal of equipment		844	1 136
Purchase of intangible assets	11	(141 103)	(118 207)
Loans to group companies		146	15 834
Acquisition of investments at fair value through profit or loss and money market unit trusts		(5 427 767)	(2 726 262)
Disposal of investments at fair value through profit or loss and money market unit trusts		3 374 769	1 199 399
		<b>(2 600 568)</b>	(1 981 844)
<b>Cash flow from financing activities</b>			
Loans from group companies		10 025	(14 767)
Ordinary shares issued	17	168 339	2 420 248
Dividends paid	31	(718 941)	(487 823)
		<b>(540 577)</b>	1 917 658
<b>Net increase in cash and cash equivalents</b>		<b>3 222 690</b>	1 892 572
Cash and cash equivalents at the beginning of the year		6 440 586	4 548 014
<b>Cash and cash equivalents at the end of the year</b>		<b>9 663 275</b>	6 440 586

# Notes to the annual financial statements

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## 1. General information

### 1.1 Nature of business

The company's main business is retail banking.

### 1.2 Review of operations

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

The company's earnings attributable to shareholders amounted to R2 008.8 million (2013 : R1 521.7 million).

### 1.3 Directors and secretary

Information relating to the directors and secretary of the company is presented in Chapter 2 and 3 of the annual report.

### 1.4 Company details

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

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

## 2. Accounting policies

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

### 2.1 Basis of preparation

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

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

### 2.2 Cash and cash equivalents

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, resale agreements with banks and short-term government securities. Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

### 2.3 Financial instruments

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

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

Management determines the categorisation of its financial instruments at recognition.

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

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

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

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

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

#### **(b) *Loans and advances***

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are bank loans receivable and other receivables.

Loans and advances are recognised when funds are advanced to the borrowers.

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 and available-for-sale financial assets are subsequently carried at fair value. Loans and advances 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.

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

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

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

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



(a) *Deposits held at amortised cost*

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

(b) *Other financial liabilities*

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

### **2.3.3 Offsetting financial instruments**

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

### **2.3.4 Derivative financial instruments and hedging activities**

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

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

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

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

The bank designates certain derivatives as:

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

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

#### *Treatment of hedges qualifying as cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow

hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 38. Movements on the hedging reserve in shareholders' equity are shown in note 18.

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

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

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

#### **2.4.1 Identified impairment**

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

These statistics feed discounted cash flow models, which have been developed for each of the loan products, offered by the bank. The models are updated periodically in order to reflect appropriate changes in inputs.

Models contain both judgemental and non-judgemental inputs. The extent of judgement utilised in models developed for new loan products is greater than that for older products given the limited historical experience available for the new products.

In outline, the statistical analyses are performed on a portfolio basis as follows:

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by 90 days or more 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. Renegotiated loans that have been renegotiated within the past six months are subject to stricter impairment assessment than loans renegotiated more than six months ago.

#### **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 handover occurs.

## **2.5 Interest-free loans granted**

Interest-free group loans with no fixed maturities are carried at cost net of impairment.

## **2.6 Current tax**

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

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

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

## **2.7 Deferred tax**

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

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

## 2.8 Property and equipment

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

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

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

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

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

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

## 2.9 Intangible assets

### (a) Computer software

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

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

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

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

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

## 2.10 Impairment of non-financial assets

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

## 2.11 Share capital

### (a) *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.

### (b) *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.

### (c) *Dividends declared*

Dividends on ordinary shares and preference shares are recognised in equity in the period in which they have been approved by the bank's directors.

## 2.12 Employee benefits

### (a) *Pension obligations*

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

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

### (b) *Share-based compensation*

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

### (c) *Performance incentive scheme*

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

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

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

## 2.13 Foreign currency translation

### (a) *Functional and presentation currency*

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

### (b) *Transactions and balances*

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

## 2.14 Revenue recognition

### 2.14.1 Interest income and expense

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

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

Once a financial asset or a bank 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the executive management committee that makes strategic decisions.

Capitec Bank operates as a mono-line business which has no distinguishable operating segments.

## 2.16 Determination of fair values

The measurement and disclosure requirements of IFRS 13 were applied prospectively from 1 March 2013.

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 note 26.9.

## 2.17 Leases

### (a) *Where the bank is the lessee*

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

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

### (b) *Where the bank is the lessor*

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

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

- Amendment to IFRS 7 Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities (effective 1 March 2013)
- IFRS 10 Consolidated financial statements (effective 1 March 2013)
- IFRS 11 Joint arrangements (effective 1 March 2013)
- IFRS 12 Disclosure of interests in other entities (effective 1 March 2013)
- IFRS 13 Fair value measurement (effective 1 March 2013)
- Amendments to IAS 19 Employee benefits (effective 1 March 2013)
- Revised IAS 27 Separate financial statements (effective 1 March 2013)
- Revised IAS 28 Investments in Associates and joint ventures (effective 1 March 2013)
- Improvements to IFRSs 2011 (effective 1 March 2013)
- IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 March 2013)

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 new standards, amendments and interpretations to existing standards have been published that are mandatory for the bank's accounting periods beginning on or after 1 March 2014 or later periods but which the bank has not early adopted, as follows:

- IFRS 9 Financial instruments (effective 1 March 2015)
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (effective 1 March 2014)
- Amendment to IAS 32 – Offsetting financial assets and financial liabilities (effective 1 March 2014)
- Amendment to IAS 36 – Recoverable amount disclosures for non-financial assets (effective 1 March 2014)
- IFRIC 21 Levies (effective 1 March 2014)

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



### 3 Critical accounting estimates and judgements in applying accounting policies

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

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

#### Impairment losses on loans and advances

The company reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the company makes judgements as to whether there 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.

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

Expected default rates (R'000)	2014	2013
Expected default rates increase by 5%	51 983	37 213
Expected default rates decrease by 5%	(52 087)	(37 259)

#### Segment reporting

Capitec reports a single segment – retail banking within the South African economic environment. The business is widely distributed with no reliance on any major customers. The business sells a single retail bank product 'Global One' which enables clients to transact, save and borrow.

The executive management committee assesses information relating to the performance of this single segment on multiple levels and from multiple perspectives. 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.

#### Contingent liability

In last year's annual report the board reported that a notice had been received from the National Credit Regulator alleging contraventions of the National Credit Act. The board reported that it had taken legal advice and believed the matter would be resolved satisfactorily through due process. The matter was heard by the National Consumer Tribunal on 13 March 2014 and judgement was reserved. As reported previously, due to uncertainties that currently exist management are unable to estimate the financial effect of any possible outcome and therefore the item was disclosed as a contingent liability in note 32.

## **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 weighted average cost of capital (WACC) rate for a hypothetical market participant applied to the valuation cash flows. In summary, this approach calculates a discount rate which reflects the cost to the market participant plus that participant's required rate of return on investment.

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

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

R'000	2014	2013
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#### 4. Cash, cash equivalents and money market funds

Cash on hand <sup>(1)</sup>	1 617 156	1 383 300
Bank balances	7 330 294	3 203 003
Treasury bills <sup>(2)</sup>	–	299 751
<b>Central bank balances</b>		
Debentures <sup>(3)</sup>	–	900 246
Mandatory reserve deposits with central bank <sup>(4)</sup>	715 825	654 286
<b>Cash and cash equivalents</b>	<b>9 663 275</b>	<b>6 440 586</b>
Money market unit trusts <sup>(5)</sup>	2 278	702 492
	<b>9 665 553</b>	<b>7 143 078</b>
Maximum exposure to credit risk	<b>9 665 553</b>	7 143 078
Current	<b>9 665 553</b>	7 143 078

<sup>(1)</sup> Cash on hand is non-interest bearing.

<sup>(2)</sup> Treasury bills are short-term fixed interest securities issued by the South African National Treasury (Treasury bills).

<sup>(3)</sup> Debentures are short-term fixed interest securities issued by the South African Reserve Bank (SARB) with maturity dates of less than 3 months.

<sup>(4)</sup> 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 taken into consideration for cash planning purposes.

<sup>(5)</sup> Money market unit trusts are liquid floating rate assets and are taken into consideration for cash planning purposes.

#### 5. Investments designated at fair value

##### Interest-bearing instruments<sup>(1)</sup>

Balance at the beginning of the year	2 022 906	1 198 833
Additions	5 427 767	2 023 770
Disposals	(2 674 554)	(1 199 399)
Fair value adjustment - Interest rate risk <sup>(2)</sup>	(19 083)	(298)
<b>Balance at the end of the year<sup>(3)</sup></b>	<b>4 757 036</b>	<b>2 022 906</b>
Maximum exposure to credit risk <sup>(4)</sup>	<b>4 757 036</b>	2 022 906
Current	<b>4 757 036</b>	2 022 906

<sup>(1)</sup> Interest-bearing instruments comprise unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises Treasury bills, 97% of the balance, and an investment in negotiable certificates of deposits issued by a large South African bank, 3% of the balance (2013: Treasury bills).

<sup>(2)</sup> The methods and assumptions applied to calculate the fair value changes due to interest rate risk are set out in note 26.3.

<sup>(3)</sup> The Liquid Asset Requirement of R1 432.0 million (2013: R1 310.5 million) is held for regulatory purposes and consists of National Treasury Bills and SARB debentures. Half of this amount is not available for use as working capital for settlement purposes.

<sup>(4)</sup> There is credit risk on these instruments. Refer to note 26.1 for further detail. Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. This group of financial assets and their performance is managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.

R'000	2014	2013
<b>6. Loans and advances to clients</b>		
<b>Maturity analysis</b>		
Demand to one month	1 389 300	1 173 564
One to three months	1 450 303	1 229 495
Three months to one year	6 370 670	5 249 554
More than one year	24 845 960	23 459 101
	<b>34 056 233</b>	31 111 714
Deferred loan fee income	(368 304)	(458 634)
Gross loans and advances	<b>33 687 929</b>	30 653 080
Allowance for impaired loans and advances	<b>(3 637 176)</b>	(2 722 814)
<b>Net loans and advances to clients<sup>(1) (2)</sup></b>	<b>30 050 753</b>	27 930 266
<b>Analysis of net loans and advances by status</b>		
Gross	30 766 804	28 250 973
Impairment	(2 073 214)	(1 794 906)
<b>Current<sup>(3)</sup></b>	<b>28 693 590</b>	26 456 067
Gross	747 262	625 073
Impairment	(246 292)	(64 418)
<b>Current – arrears rescheduled in the past six months<sup>(4)</sup></b>	<b>500 970</b>	560 655
Gross	2 173 863	1 777 034
Impairment	(1 317 670)	(863 490)
<b>Arrears<sup>(5)</sup></b>	<b>856 193</b>	913 544
	<b>30 050 753</b>	27 930 266
<b>Credit quality of current loans and advances<sup>(6) (7)</sup></b>		
Low risk	6 447 079	6 875 348
Medium risk	21 591 199	18 815 248
High risk	3 475 788	3 185 450
<b>Current loans</b>	<b>31 514 066</b>	28 876 046
<b>Ageing of gross arrears</b>		
< 60 days	1 791 273	1 568 709
60 – 90 days	382 590	208 325
	<b>2 173 863</b>	1 777 034

R'000

2014

2013

## 6. Loans and advances to clients (continued)

### Movement on allowance for impaired advances

Unidentified losses	1 859 324	1 015 076
Identified losses	863 490	529 711
<b>Opening balance</b>	<b>2 722 814</b>	1 544 787
Unidentified losses	460 182	844 248
Identified losses	454 180	333 779
<b>Movement</b>	<b>914 362</b>	1 178 027
Unidentified losses	2 319 506	1 859 324
Identified losses	1 317 670	863 490
<b>Closing balance</b>	<b>3 637 176</b>	2 722 814

### Exposure to credit risk

Loans and advances to clients	34 056 233	31 111 714
Conditionally revocable retail loan commitments <sup>(6)</sup>	440 423	725 010
<b>Maximum exposure to credit risk</b>	<b>34 496 656</b>	31 836 724

<sup>(1)</sup> Loans and advances comprise unsecured loans to individuals.

<sup>(2)</sup> Accrued interest receivable of R158.2 million is included in loans and advances (2013: R145.8 million).

<sup>(3)</sup> Loans and advances not past due on which an impairment allowance has been raised are treated as current.

<sup>(4)</sup> 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 restructuring, they are reclassified to current for impairment allowance purposes.

<sup>(5)</sup> Past due loans and advances are in arrears from one day to three months and not handed over. All past due loans and advances are in arrears.

<sup>(6)</sup> The lower-risk clients qualify for longer-term, lower-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 term for which the client qualifies.

<sup>(7)</sup> The method used to disclose the credit quality of current loans changed during the year from credit bureaux scores to PD rates. The comparative figures using the new method would have been R4.373 billion, R21.333 billion and R3.170 billion for low, medium and high risk, respectively.

<sup>(8)</sup> Conditionally revocable retail loan commitments totalling R440.4 million (2013: R725.0 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 contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. A total of 21.3% (2013: 17.8%) of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within the month.

R'000	2014	2013
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## 7. Other receivables

Rental deposits	3 235	2 483
Accrued income	116 500	65 179
Prepayments	99 701	55 918
	<b>219 436</b>	123 580

Current	217 239	121 483
Non-current	2 197	2 097

## 8. Derivative assets<sup>(1)</sup>

Derivatives (notes 37 and 38)	202 816	3 394
Other <sup>(2)</sup>	–	10 127
	<b>202 816</b>	13 521

Current	20 655	13 521
Non-current	182 161	–

<sup>(1)</sup> The prior year amounts were disclosed as part of other receivables in the prior year.

<sup>(2)</sup> The amount was the margin account of all out of the money derivative assets and liabilities. The amount could have been offset against the derivative assets on default as it meets the offsetting requirements.

## 9. Group loans receivable<sup>(1)(2)</sup>

Loan to share incentive trust <sup>(3)</sup>	–	137
Loan to fellow subsidiary	29 983	29 981
Loan owing from holding company	–	11
	<b>29 983</b>	30 129

Current	29 983	30 129
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<sup>(1)</sup> Group loans receivable are interest free.

<sup>(2)</sup> All loans to group companies have no fixed repayment terms.

<sup>(3)</sup> The prior year loan was subordinated until the assets of the entity exceeded its liabilities.

## 10. Equipment

R'000	Computer equipment	Office equipment and vehicles	Total
<b>2014</b>			
Opening net book value	322 523	343 695	666 218
Additions	256 048	151 409	407 457
Disposals	(607)	(317)	(924)
Depreciation charge	(140 333)	(108 461)	(248 794)
<b>Net book value at the end of the year</b>	<b>437 631</b>	<b>386 326</b>	<b>823 957</b>
Cost	868 912	869 890	1 738 802
Accumulated depreciation	(431 281)	(483 564)	(914 845)
<b>Net book value at the end of the year</b>	<b>437 631</b>	<b>386 326</b>	<b>823 957</b>
Non-current	437 631	386 326	823 957
<b>2013</b>			
Cost	473 126	545 737	1 018 863
Accumulated depreciation	(216 373)	(293 601)	(509 974)
Opening net book value	256 753	252 136	508 889
Additions	175 909	177 713	353 622
Disposals	(626)	(155)	(781)
Depreciation charge	(109 513)	(85 999)	(195 512)
Net book value at the end of the year	322 523	343 695	666 218
Cost	622 074	721 272	1 343 346
Accumulated depreciation	(299 551)	(377 577)	(677 128)
Net book value at the end of the year	322 523	343 695	666 218
Non-current	322 523	343 695	666 218

R'000	2014	2013
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## 11. Intangible assets

### Computer software<sup>(1)</sup>

Cost	265 142	148 248
Accumulated amortisation	(128 762)	(78 989)
Opening net book value	136 380	69 259
Additions	141 103	118 200
Scrappings	–	(16)
Amortisation charge	(76 164)	(51 063)
<b>Net book value at the end of the year</b>	<b>201 319</b>	<b>136 380</b>

Cost	406 237	265 142
Accumulated amortisation	(204 918)	(128 762)
<b>Net book value at the end of the year</b>	<b>201 319</b>	<b>136 380</b>

Non-current	201 319	136 380
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<sup>(1)</sup> Computer software is primarily comprised of the main banking infrastructure applications.

## 12. Deferred income tax assets

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Pre-payments	Total
<b>2014</b>					
Balance at the beginning of the year	309 276	6 092	(34 396)	(8 839)	272 133
Income statement charge	(12 138)	–	(2 901)	(4 330)	(19 369)
Credited to equity through other comprehensive income	–	(37 635)	–	–	(37 635)
<b>Balance at the end of the year</b>	<b>297 138</b>	<b>(31 543)</b>	<b>(37 297)</b>	<b>(13 169)</b>	<b>215 129</b>

### 2013

Balance at the beginning of the year	252 687	747	(21 787)	(6 358)	225 289
Income statement charge	56 589	–	(12 609)	(2 481)	41 499
Credited to equity through other comprehensive income	–	5 345	–	–	5 345
<b>Balance at the end of the year</b>	<b>309 276</b>	<b>6 092</b>	<b>(34 396)</b>	<b>(8 839)</b>	<b>272 133</b>

Current	143 697	172 307
Non-current	71 432	99 826

<sup>(1)</sup> Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2013: 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

2014

2013

## 13. Deposits and bonds

### By maturity

Within one month	15 291 072	11 053 402
One to three months	1 548 149	939 119
Three months to one year	4 216 738	4 166 668
More than one year	14 392 719	12 841 002

### Deposits and bonds<sup>(1)</sup>

	35 448 678	29 000 191
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### By nature

Retail savings	14 616 509	10 335 171
Retail fixed deposits	8 984 370	6 843 560
Wholesale	1 363 714	1 691 812
Subordinated debt – unlisted bonds	1 006 352	1 006 127
Subordinated debt – listed bonds	1 925 517	1 925 745
Listed senior bonds <sup>(2)</sup>	5 488 667	4 222 222
Other unlisted negotiable instruments	1 879 011	2 832 811
Reserve Bank settlement balance	184 538	142 743

	35 448 678	29 000 191
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Amounts payable on maturity of the funding<sup>(3)</sup>

	40 274 894	33 944 592
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### Subordinated debt analysis

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

<sup>(1)</sup> All deposits are unsecured.

<sup>(2)</sup> Listed senior bonds consist of Domestic Medium-Term Notes. Domestic Medium-Term Notes (nominal value R4 062 million) issued at variable rates are hedged through interest rate swap agreements as set out in notes 18 and 38.

<sup>(3)</sup> The difference between the amounts payable on maturity and the loans and deposits at amortised cost relates to future finance cost.

R'000	2014	2013
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## 14. Other liabilities

Trade payables	323 401	215 784
Dividends payable	10 176	10 077
Accruals	286 079	317 933
Share option and share appreciation rights accrual (notes 35 and 36)	253 405	404 426
Derivatives (notes 37 and 38)	719	25 637
	<b>873 780</b>	973 857
<hr/>		
Current	628 208	648 676
Non-current	245 572	325 181

## 15. Provisions

### Performance incentive scheme<sup>(1)</sup>

Balance at the beginning of the year	28 449	24 998
Addition	2 487	18 596
Used during the year	(19 485)	(15 145)
<b>Balance at the end of the year</b>	<b>11 451</b>	<b>28 449</b>

Non-current	11 451	28 449
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<sup>(1)</sup> Senior management qualifies for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid out in the 2016, 2017 and 2018 financial years are included in provisions. The bonus to be paid in the 2015 financial year is included in accruals.

## 16. Group loans payable<sup>(1)</sup>

Loan owing to holding company <sup>(2)</sup>	9 665	1 584
Loan owing to fellow group trust	1 944	–
	<b>11 609</b>	<b>1 584</b>
<hr/>		
Current	11 609	1 584

<sup>(1)</sup> The loans are interest free and have no fixed repayment terms, except for amounts detailed in (2) below.

<sup>(2)</sup> Interest is levied at prime (2013: prime) on the loan to the holding company. Interest received on this loan during the year amounted to R0.1 million (2013: R0.2 million).

R'000	2014	2013
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## 17. Share capital and premium

<b>Authorised</b>		
<b>Ordinary shares</b>		
5 000 000 000 shares of R0.01 each	50 000	50 000
<b>Non-redeemable, non-cumulative, non-participating preference shares<sup>(2)</sup></b>		
100 000 000 shares of R0.01 each	1 000	1 000
<b>Compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares</b>		
100 000 000 shares of R0.01 each	1 000	1 000
	<b>52 000</b>	<b>52 000</b>
<b>Issued<sup>(1)</sup></b>		
1 200 000 (2013: 1 100 000) shares of R0.01 each at par	12	11
Share premium	5 969 470	5 801 132
<b>Ordinary share capital and premium</b>	<b>5 969 482</b>	<b>5 801 143</b>
2 869 014 (2013: 2 869 014) shares of R0.01 each at par	29	29
Share premium	258 940	258 940
<b>Non-redeemable, non-cumulative, non-participating preference share capital and premium<sup>(2)</sup></b>	<b>258 969</b>	<b>258 969</b>
<b>Total issued share capital and premium</b>	<b>6 228 451</b>	<b>6 060 112</b>

<sup>(1)</sup> All issued ordinary and preference shares are held by Capitec Bank Holdings Limited and are fully paid up. No ordinary or preference shares were cancelled in the current or prior year.

<sup>(2)</sup> The preference shares carry a coupon rate of 83.33% of the prime overdraft rate on a face value of R100 per share.

## 18. Cash flow hedge reserve

<b>Cash flow hedge gain<sup>(1)</sup></b>		
Balance at the beginning of the year	(15 925)	(1 920)
Amount recognised in comprehensive income during the year	187 644	(33 430)
Amount reclassified from comprehensive income to profit and loss for the year	(53 219)	14 080
	<b>118 500</b>	<b>(21 270)</b>
Deferred tax recognised in comprehensive income during the year	(37 635)	5 345
<b>Balance at the end of the year</b>	<b>80 865</b>	<b>(15 925)</b>

<sup>(1)</sup> The hedging reserve is released to the income statement on realisation of the interest expense. Refer to note 38 for additional disclosure.

R'000	2014	2013
<b>19. Net interest income</b>		
Loans and advances to clients	9 000 007	6 830 303
Non-bank money market placements	1	2
Money market funds	207 274	130 023
Treasury bills	28 576	6 821
Resale agreements with banks	–	4 614
Bank balances	8 953	2 689
Debentures	27 060	36 993
Interest-bearing instruments	160 738	73 000
Group loans receivable	89	179
<b>Interest income<sup>(1)</sup></b>	<b>9 432 698</b>	<b>7 084 624</b>
Retail saving	(489 029)	(365 037)
Retail fixed deposits	(564 165)	(377 513)
Wholesale	(133 857)	(143 707)
Subordinated debt	(300 630)	(204 280)
Domestic medium term note	(457 996)	(367 995)
Negotiable deposits	(187 037)	(190 584)
Other	–	(13 162)
Forward exchange contacts	–	(189)
<b>Interest expense</b>	<b>(2 132 714)</b>	<b>(1 662 467)</b>
<b>Net interest income</b>	<b>7 299 984</b>	<b>5 422 157</b>

<sup>(1)</sup> Included in interest income is R80.2 million (2013: R72.8 million) with respect to interest income accrued on impaired financial assets.

## 20. Dividend income

Investments at fair value through profit or loss	8	9
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## 21. Net impairment charge on loans and advances to clients

Bad debts	3 495 596	1 753 593
Movement in impairment allowance	914 362	1 178 027
Bad debts recovered	(433 788)	(273 175)
<b>Net impairment charge</b>	<b>3 976 170</b>	<b>2 658 445</b>

R'000

2014

2013

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

Change in fair value due to risk factors <sup>(1)</sup>	(19 083)	(298)
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<sup>(1)</sup> The changes in fair value for 2014 relate to interest rate risk (2013: interest rate risk).

## 23. Operating profit before tax

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

Loss/(Profit) on disposal of equipment	80	(355)
Loss on scrapping of intangibles	–	16
Depreciation on fixed assets	248 794	195 512
Amortisation of computer software	76 164	51 070
	<b>325 038</b>	246 243
Advertising and marketing	151 009	136 161
Bank charges	182 543	184 353
Consumables	114 553	102 821
Communications	133 590	118 535
Operating lease rentals		
Land and buildings	239 162	202 904
Office equipment	2 964	2 583
	<b>242 126</b>	205 487
Income from subletting	(3 861)	(2 872)
Auditors' remuneration		
Audit fees – current year	3 285	3 071
Other services	674	451
	<b>3 959</b>	3 522
Employee costs (including directors' remuneration) <sup>(1)</sup>		
Salaries and wages	1 427 587	1 349 699
Cash-settled share-based payment	60 035	117 188
Cash-settled share appreciation rights	56 104	93 066
Social security cost	34 315	30 677
Training cost	35 015	44 376
Training refund	(10 232)	(3 183)
	<b>1 602 824</b>	1 631 823

<sup>(1)</sup> Refer to note 28 for details of directors' remuneration.

R'000	2014	2013
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## 24. Income tax expense

Normal company tax	761 416	654 044
Secondary tax on companies	–	28 906
<b>Current tax</b>	<b>761 416</b>	<b>682 950</b>
<b>Deferred tax</b>	<b>19 369</b>	<b>(41 499)</b>
<b>Income tax expense</b>	<b>780 785</b>	<b>641 451</b>

Effective tax rate	28	30
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The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

<b>Profit before tax</b>	<b>2 789 556</b>	<b>2 163 162</b>
Tax calculated at a tax rate of 28%	781 076	605 685
Secondary tax on companies	–	28 906
Adjustments for prior periods	13	(143)
Income not subject to tax	(7)	(31)
Expenses not deductible for tax purposes	704	7 690
Allowances not in income statement	(1 001)	(657)
Withholding tax	–	1
<b>Income tax expense</b>	<b>780 785</b>	<b>641 451</b>

## 25. Dividends

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

	R'000	Declared	LDT	Date Paid
<b>2014</b>				
Ordinary dividend				
Interim	234 055	25 Sep 2013	11 Oct 2013	21 Oct 2013
Final <sup>(1)</sup>	530 371	24 Mar 2014	10 Apr 2014	22 Apr 2014
Preference dividend				
Interim	10 244	31 Aug 2013	13 Sep 2013	23 Sep 2013
Final	10 176	28 Feb 2014	13 Mar 2014	24 Mar 2014
<b>2013</b>				
Ordinary dividend				
Interim	169 614	25 Sep 2012	12 Oct 2012	22 Oct 2012
Final	463 489	25 Mar 2013	12 Apr 2013	22 Apr 2013
Preference dividend				
Interim	10 706	31 Aug 2012	14 Sep 2012	25 Sep 2012
Final	10 077	28 Feb 2013	14 Mar 2013	25 Mar 2013

<sup>(1)</sup> The directors declared a final dividend amounting to R530.4 million (2013: R463.5 million) in respect of 2014 on 24 March 2014. 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 2015, which is in line with recommended accounting practice.

## 26. Financial risk management

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

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

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

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

The RCMC ensures that risk assessment is an on-going 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 26.9.

## 26.1 Credit risk

### Retail

The bank specialises in granting personal unsecured loans. Exposure to counterparty concentration credit risk is low due to the nature and distribution of the loan book. Exposure to systemic credit risk is regarded as being higher than normal banking activities due to the demographic credit characteristics of the client base. Measures taken by the bank to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances and, accordingly, the entire balance as per the balance sheet is exposed to credit risk. The credit quality of loans and advances is disclosed in note 6.

The maximum capital advanced in terms of any one personal loan is R230 000 (2013: R230 000). At balance sheet date the number of outstanding loans was 1 035 892 (2013: 1 153 420).

### Wholesale

The bank only invests centrally managed cash surpluses in cash and liquid assets with the SARB and South African National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to counterparty concentration credit risk exists principally in cash and cash equivalents and interest bearing instruments (notes 4 and 5). Exposure to counterparty credit risk is controlled using ALCO approved limits which are monitored and enforced by the Credit Committee. This ensures that the financial assets that the bank may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's (2013: Fitch).

At balance sheet date the international long-term credit ratings, using Moodys (2013: Fitch) ratings, were as follows:

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Total carrying amount
<b>2014</b>						
Cash on hand	4	–	1 617 156	–	–	1 617 156
Bank balances <sup>(1)</sup>	4	2 635 383	4 694 909	–	3	7 330 295
Money market funds <sup>(2)</sup>	4	–	–	–	2 278	2 278
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances <sup>(1)</sup>	4	–	715 825	–	–	715 825
Treasury bills (> 3 months)	5	–	4 604 464	–	–	4 604 464
Negotiable certificates of deposit (>3 months)	5	–	152 572	–	–	152 572
		2 635 383	11 784 926	–	2 281	14 422 590

R'000	Notes	AAA-A	BBB	Below BBB	Not rated	Total carrying amount
<b>2013</b>						
Cash on hand	4	–	1 383 300	–	–	1 383 300
Bank balances	4	2 509 014	693 986	–	3	3 203 003
Resale agreements with banks	4	–	–	–	–	–
Money market funds	4	–	–	–	702 492	702 492
Treasury bills (< 3 months)	4	–	299 751	–	–	299 751
Central bank balances	4	–	1 554 532	–	–	1 554 532
Treasury bills (> 3 months)	5	–	2 022 906	–	–	2 022 906
		2 509 014	5 954 475	–	702 495	9 165 984

<sup>(1)</sup> The bank balances were with 9 institutions (2013: 9), with the maximum exposure to one institution being R1 494 million (2013: R3 267 million).

<sup>(2)</sup> Money market funds consist of money market unit trust investments. The placements were with 7 institutions (2013: 5).



## 26.2 Geographical concentration of operations

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

<b>Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:</b>	<b>2014</b>	<b>2013</b>
Eastern Cape	73	69
Free State	37	33
Gauteng	183	155
KwaZulu-Natal	97	85
Limpopo	55	47
Mpumalanga	52	46
North West	33	32
Northern Cape	20	20
Western Cape	79	73
	<b>629</b>	<b>560</b>

## 26.3 Interest rate risk

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

The bank operates within the ambit of the National Credit Act when considering interest rates on short-term personal loans and retail advances are only offered at fixed interest rates. The maturity breakdown of the advances book is set out in note 6 and note 26.6.

### **Fair value interest rate risk**

Financial assets and liabilities are mainly accounted for on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk. Mark-to-market movements are attributed to interest rate risk when there is a change in the credit rating of the counterparty.

### **Cash flow interest rate risk**

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

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

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

## 26.3 Interest rate risk (continued)

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) and hedging instruments
- 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 R48.1 million for a 200 basis point decrease and a decline in value of R46.8 million for a 200 basis point increase are excluded, as the contractual terms of these instruments have fixed rate cash flows and they are not actively traded.
- The impact on equity reflects the day one change in the valuation of interest rate cash flow hedges accounted for in equity.

Unless otherwise stated, the continuity of items for the purpose of this analysis is the contractual maturity dates.

200 basis points (R'000)	Impact on Income Statement				Impact on Equity			
	2014 <sup>(1)</sup>		2013		2014 <sup>(1)</sup>		2013	
	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(44 907)	(32 333)	(48 326)	(34 795)	106 388	76 599	134 413	96 778
Decrease	44 907	32 333	48 326	34 795	(106 388)	(76 599)	(134 413)	(96 778)

<sup>(1)</sup> In the current year the model used to generate the interest sensitivities for this note was amended to more appropriately reflect the impact of rate changes. The comparatives were adjusted accordingly to enable comparability. The prior year reflected an income statement sensitivity of R234 million (post-tax R169 million) and an equity impact of R84 million (post-tax R62 million).

## 26.4 Currency risk

The exposure to foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities is managed through the purchase of forward foreign exchange contracts. Wholesale loans and deposits (refer to note 13) include a foreign denominated loan. The currency exposure is mitigated by a hedging instrument (refer to note 38).

## 26.5 Other market risk

There is no exposure to other pricing risk.

## 26.6 Liquidity risk

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

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

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to items which have not yet been recorded on the balance sheet (off-balance sheet items), are excluded. Refer to note 32.
- Conditionally revocable retail loan commitments totalling R440.4 million (2013: R725.0 million) are not included in the liquidity analysis above. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a

## 26.6 Liquidity risk (continued)

client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. A total of 21.3% (2013: 17.8%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future drawdowns must also occur within the month.

- Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

<b>Maturities of financial assets and financial liabilities (discounted cash flows)</b>		<b>Demand to one month</b>	<b>One to three months</b>	<b>Three months to one year</b>	<b>More than one year</b>	<b>Adjustment<sup>(3)</sup></b>	<b>Total</b>
<b>R'000</b>	<b>Notes</b>						
<b>2014</b>							
<b>Undiscounted assets</b>							
Cash and cash equivalents – sovereigns <sup>(2)</sup>	4	715 825	–	–	–	–	715 825
Cash and cash equivalents – banks	4	7 714 786	1 246 239	–	–	–	8 961 025
Money markets unit trusts	4	2 278	–	–	–	–	2 278
Investments at fair value through profit or loss – sovereigns	5	695 330	285 000	3 791 580	–	–	4 771 910
Loans and advances to clients – retail personal <sup>(2)</sup>	6	2 201 230	3 059 301	12 798 030	39 899 939	(368 304)	57 590 196
Loans and advances to clients – retail other <sup>(2)</sup>	6	5 307	–	–	–	–	5 307
Loans and advances to clients – corporate other	6	14 466	–	–	–	–	14 466
Other receivables	7	118 469	51	–	2 197	–	120 717
Derivative assets	8	–	(3 251)	17 932	230 057	–	244 738
Current income tax assets		–	–	22 519	–	–	22 519
Group loans receivable	9	29 983	–	–	–	–	29 983
<b>Undiscounted assets</b>		<b>11 497 674</b>	<b>4 587 340</b>	<b>16 630 061</b>	<b>40 132 193</b>	<b>(368 304)</b>	<b>72 478 964</b>
Adjustments for undiscounted assets		(839 286)	(1 466 995)	(6 591 606)	(15 095 506)	–	(23 993 393)
<b>Discounted assets</b>							
Loan impairment provision	6	(317 583)	(134 230)	(568 546)	(2 616 817)	–	(3 637 176)
<b>Total discounted assets</b>		<b>224 198 70</b>	<b>7 278 914</b>	<b>9 469 909</b>	<b>22 419 870</b>	<b>(368 304)</b>	<b>44 848 395</b>
<b>Undiscounted liabilities</b>							
Deposits and bonds at amortised cost	13	15 315 786	1 739 300	5 137 338	18 217 404	–	40 409 828
Trade and other payables	14	384 192	208 502	35 513	126 717	118 863	873 787
Current income tax liabilities		–	–	–	–	–	–
Group loans payable	16	11 609	–	–	–	–	11 609
Provisions	15	–	–	–	11 451	–	11 451
<b>Undiscounted liabilities</b>		<b>15 711 587</b>	<b>1 947 802</b>	<b>5 172 851</b>	<b>18 355 572</b>	<b>118 863</b>	<b>41 306 675</b>
Adjustments for undiscounted liabilities to depositors		(24 714)	(191 151)	(920 600)	(3 824 685)	–	(4 961 150)
<b>Total discounted liabilities</b>		<b>15 686 873</b>	<b>1 756 651</b>	<b>4 252 251</b>	<b>14 530 887</b>	<b>118 863</b>	<b>36 345 525</b>
<b>Net liquidity excess/(shortfall)<sup>(1)</sup></b>		<b>(5 346 068)</b>	<b>1 229 464</b>	<b>5 217 658</b>	<b>7 888 982</b>	<b>(487 167)</b>	<b>8 502 870</b>
<b>Cumulative liquidity excess/(shortfall)</b>		<b>(5 346 068)</b>	<b>(4 116 604)</b>	<b>1 101 054</b>	<b>8 990 037</b>	<b>8 502 870</b>	<b>8 502 870</b>

## 26.6 Liquidity risk (continued)

<b>Maturities of financial assets and financial liabilities (discounted cash flows)</b>		<b>Demand to one month</b>	<b>One to three months</b>	<b>Three months to one year</b>	<b>More than one year</b>	<b>Adjustment<sup>(3)</sup></b>	<b>Total</b>
<b>R'000</b>	<b>Notes</b>						
<b>2013</b>							
<b>Undiscounted assets</b>							
Cash and cash equivalents - sovereigns <sup>(2)</sup>	4	1 854 283	-	-	-	-	1 854 283
Cash and cash equivalents - banks	4	4 587 999	-	-	-	-	4 587 999
Money markets unit trusts	4	702 492	-	-	-	-	702 492
Investments at fair value through profit or loss – sovereigns	5	270 900	211 260	1 584 400	-	-	2 066 560
Loans and advances to clients - retail personal <sup>(2)</sup>	6	2 003 556	2 688 873	11 101 562	37 717 830	(458 634)	53 053 187
Loans and advances to clients - retail other <sup>(2)</sup>	6	1 027	-	-	-	-	1 027
Loans and advances to clients - corporate other	6	19 509	-	-	-	-	19 509
Other receivables	7	75 640	(375)	(1 429)	7 347	-	81 183
Current income tax assets		-	-	-	-	-	-
Group loans receivable	9	30 129	-	-	-	-	30 129
<b>Undiscounted assets</b>		<b>9 545 535</b>	<b>2 899 758</b>	<b>12 684 533</b>	<b>37 725 177</b>	<b>(458 634)</b>	<b>62 396 369</b>
Adjustments for undiscounted assets		(852 914)	(1 461 318)	(5 893 030)	(14 258 729)	-	(22 465 991)
<b>Discounted assets</b>							
Loan impairment provision	6	(189 472)	(89 537)	(352 590)	(2 091 215)	-	(2 722 814)
<b>Total discounted assets</b>		<b>8 503 149</b>	<b>1 348 903</b>	<b>6 438 913</b>	<b>21 375 233</b>	<b>(458 634)</b>	<b>37 207 564</b>
<b>Undiscounted liabilities</b>							
Deposits and bonds at amortised cost	13	11 062 854	1 078 056	4 927 845	16 875 837	-	33 944 592
Trade and other payables	14	301 409	309 997	36 637	226 954	98 860	973 857
Current income tax liabilities		-	-	46 007	-	-	46 007
Group loans payable	16	1 584	-	-	-	-	1 584
Provisions	15	-	-	-	28 449	-	28 449
<b>Undiscounted liabilities</b>		<b>11 365 847</b>	<b>1 388 053</b>	<b>5 010 489</b>	<b>17 131 240</b>	<b>98 860</b>	<b>34 994 489</b>
Adjustments for undiscounted liabilities to depositors		(9 452)	(138 937)	(761 177)	(4 034 835)	-	(4 944 401)
<b>Total discounted liabilities</b>		<b>11 356 395</b>	<b>1 249 116</b>	<b>4 249 312</b>	<b>13 096 405</b>	<b>98 860</b>	<b>30 050 088</b>
<b>Net liquidity (shortfall)/excess<sup>(1)</sup></b>		<b>(2 853 246)</b>	<b>99 787</b>	<b>2 189 601</b>	<b>8 278 828</b>	<b>(557 494)</b>	<b>7 157 476</b>
<b>Cumulative liquidity (shortfall)/excess</b>		<b>(2 853 246)</b>	<b>(2 753 459)</b>	<b>(563 858)</b>	<b>7 714 970</b>	<b>7 157 024</b>	<b>7 157 476</b>

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

<sup>(2)</sup> The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.

<sup>(3)</sup> The adjustments include deferred initiation fees, leave pay provision, deferred income and straightlining of lease accruals.

## 26.6 Liquidity risk (continued)

<b>Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year</b>		<b>More than one year</b>	<b>One to two years</b>	<b>Two to three years</b>	<b>Three to four years</b>	<b>Four to five years</b>	<b>Five to ten years</b>	<b>More than ten years</b>
<b>R'000</b>	Notes							
<b>2014</b>								
<b>Undiscounted assets</b>								
Loans and advances to clients – retail personal	6	39 899 939	14 460 101	11 022 631	7 443 534	4 355 481	2 618 192	–
Other receivables	7	2 197	1 977	–	–	–	220	–
Derivative assets	8	230 057	211 085	18 972	–	–	–	–
<b>Undiscounted assets</b>		<b>40 132 193</b>	<b>14 673 163</b>	<b>11 041 603</b>	<b>7 443 534</b>	<b>4 355 481</b>	<b>2 618 412</b>	<b>–</b>
Adjustments for undiscounted assets		(15 095 506)	(6 504 013)	(4 261 074)	(2 386 721)	(1 067 015)	(876 683)	–
<b>Discounted assets</b>								
Loan impairment provision	6	(2 616 817)	(890 236)	(690 835)	(500 730)	(311 485)	(223 531)	–
<b>Total discounted assets</b>		<b>22 419 870</b>	<b>7 278 914</b>	<b>6 089 694</b>	<b>4 556 083</b>	<b>2 976 981</b>	<b>1 518 198</b>	<b>–</b>
<b>Undiscounted liabilities</b>								
Deposits and bonds at amortised cost	13	18 217 404	5 548 690	4 854 566	2 680 353	1 869 651	3 208 771	55 373
Trade and other payables	14	126 717	82 857	7 556	3 060	1 436	31 808	–
Provisions	15	11 451	10 208	1 243	–	–	–	–
<b>Undiscounted Liabilities</b>		<b>18 355 572</b>	<b>5 641 755</b>	<b>4 863 365</b>	<b>2 683 413</b>	<b>1 871 087</b>	<b>3 240 579</b>	<b>55 373</b>
Adjustments for undiscounted liabilities to depositors		(3 824 685)	(1 225 538)	(928 650)	(630 775)	(566 056)	(469 551)	(4 115)
<b>Total discounted liabilities</b>		<b>14 530 887</b>	<b>4 416 217</b>	<b>3 934 715</b>	<b>2 052 638</b>	<b>1 305 031</b>	<b>2 771 028</b>	<b>51 258</b>
<b>Net liquidity excess / (shortfall)</b>		<b>7 888 983</b>	<b>2 862 697</b>	<b>2 154 979</b>	<b>2 503 445</b>	<b>1 671 950</b>	<b>(1 252 830)</b>	<b>(51 258)</b>
<b>Cumulative liquidity excess/(shortfall)</b>		<b>8 990 037</b>	<b>11 852 734</b>	<b>14 007 712</b>	<b>16 511 158</b>	<b>18 183 108</b>	<b>16 930 278</b>	<b>16 879 020</b>

## 26.6 Liquidity risk (continued)

<b>Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year</b>		<b>More than one year</b>	<b>One to two years</b>	<b>Two to three years</b>	<b>Three to four years</b>	<b>Four to five years</b>	<b>Five to ten years</b>	<b>More than ten years</b>
<b>R'000</b>	Notes							
<b>2013</b>								
<b>Undiscounted assets</b>								
Loans and advances to clients – retail personal	6	37 717 830	12 768 076	10 254 702	7 330 091	4 432 423	2 932 538	–
Other receivables	7	7 347	1 620	3 643	1 926	–	158	–
<b>Undiscounted assets</b>		<b>37 725 177</b>	<b>12 769 696</b>	<b>10 258 345</b>	<b>7 332 017</b>	<b>4 432 423</b>	<b>2 932 696</b>	<b>–</b>
Adjustments for undiscounted assets		(14 258 729)	(6 010 708)	(4 107 193)	(2 436 654)	(1 184 914)	(519 260)	–
<b>Discounted assets</b>								
Loan impairment provision	6	(2 091 215)	(694 161)	(551 073)	(398 008)	(258 847)	(189 126)	–
<b>Total discounted assets</b>		<b>21 375 233</b>	<b>6 064 827</b>	<b>5 600 079</b>	<b>4 497 355</b>	<b>2 988 662</b>	<b>2 224 310</b>	<b>–</b>
<b>Undiscounted liabilities</b>								
Deposits and bonds at amortised cost	13	16 875 837	3 009 637	4 224 363	3 604 250	2 371 649	3 601 330	64 608
Trade and other payables	14	226 954	155 519	36 074	3 413	1 490	30 458	–
Provisions	15	28 449	19 151	9 298	–	–	–	–
<b>Undiscounted Liabilities</b>		<b>17 131 240</b>	<b>3 184 307</b>	<b>4 269 735</b>	<b>3 607 663</b>	<b>2 373 139</b>	<b>3 631 788</b>	<b>64 608</b>
Adjustments for undiscounted liabilities to depositors		(4 034 835)	(941 861)	(866 683)	(875 716)	(647 507)	(693 102)	(9 966)
<b>Total discounted liabilities</b>		<b>13 096 405</b>	<b>2 242 446</b>	<b>3 403 052</b>	<b>2 731 947</b>	<b>1 725 632</b>	<b>2 938 686</b>	<b>54 642</b>
<b>Net liquidity excess / (shortfall)</b>		<b>8 278 828</b>	<b>3 822 381</b>	<b>2 197 027</b>	<b>1 765 408</b>	<b>1 263 030</b>	<b>(714 376)</b>	<b>(54 642)</b>
<b>Cumulative liquidity excess/(shortfall)</b>		<b>7 714 970</b>	<b>11 537 351</b>	<b>13 734 378</b>	<b>15 499 786</b>	<b>16 762 816</b>	<b>16 048 440</b>	<b>15 993 798</b>

## 26.7 Capital management

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

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

The bank has an internal capital adequacy assessment process (ICAAP) on an ongoing basis, which drives the group's position on capital management matters. 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 bank:

R'000	2014	2013
<b>Composition of qualifying regulatory capital</b>		
Ordinary share capital	5 969 482	5 801 143
Accumulated profit	3 533 667	2 243 936
	<b>9 503 149</b>	8 045 079
<b>Regulatory adjustments</b>		
– Intangible assets in terms of IFRS	(201 318)	(136 380)
– Specified advances	–	(137)
– Unappropriated profit	(398 291)	(128 561)
	<b>8 903 540</b>	7 780 001
<b>Common Equity Tier 1 capital (CET1)</b>		
Issued preference share capital	258 969	258 969
Phase out – non-loss absorbent <sup>(1)</sup>	(51 794)	(25 897)
	<b>207 175</b>	233 072
<b>Additional Tier 1 capital (AT1)</b>		
	<b>9 110 715</b>	8 013 073
<b>Tier 1 capital (T1)</b>		
Issued subordinated debt	2 891 000	2 891 000
Phase-out – non-loss absorbent <sup>(1)</sup>	(578 200)	(289 100)
	<b>2 312 800</b>	2 601 900
Total subordinated debt	<b>2 312 800</b>	2 601 900
Unidentified impairments	328 328	295 582
	<b>2 641 128</b>	2 897 482
<b>Tier 2 capital (T2)</b>		
	<b>11 751 843</b>	10 910 555
<b>Qualifying regulatory capital</b>		

R'000

2014

2013

## 26.7 Capital management (continued)

CET1 %	29.9	29.3
AT1%	0.7	0.9
T1 %	30.6	30.2
T2 %	8.9	10.9
<b>Total capital adequacy %<sup>(2)</sup></b>	<b>39.5</b>	<b>41.1</b>
<b>Composition of required regulatory capital</b>		
On balance sheet	2 626 363	2 246 243
Off balance sheet	263	177
Credit risk	2 626 626	2 246 420
Operational risk	197 264	131 342
Other assets	153 136	139 662
<b>Total regulatory capital requirement<sup>(3)</sup></b>	<b>2 977 026</b>	<b>2 517 424</b>
<b>Composition of risk-weighted assets<sup>(4)</sup></b>		
On balance sheet	26 263 630	23 644 663
Off balance sheet	2 625	1 858
Credit risk	26 266 255	23 646 521
Operational risk	1 972 642	1 382 544
Other assets	1 531 355	1 470 126
<b>Total risk-weighted assets</b>	<b>29 770 252</b>	<b>26 499 191</b>
Total assets based on IFRS	46 188 501	38 338 211
Total risk-weighted assets - adjustments <sup>(5)</sup>	(16 418 249)	(11 839 020)
<b>Total risk-weighted assets - regulatory</b>	<b>29 770 252</b>	<b>26 499 191</b>

<sup>(1)</sup> Starting 2013 the non-loss absorbent AT1 and T2 capital is subject to a 10% phase-out in terms of Basel 3.

<sup>(2)</sup> This ratio is determined by dividing the total qualifying regulatory capital by the total risk-weighted assets.

<sup>(3)</sup> This value is 10% (2013: 9.5%) of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 2% (2013: 1.5%). In terms of the regulations, the individual capital requirement (ICR) is excluded.

<sup>(4)</sup> 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.

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



## 26.8 Gains and losses per category of financial assets and financial liabilities

R'000	Notes	Held for trading	Designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Total
<b>2014</b>						
Interest income	19	-	160 738	9 271 960	-	9 432 698
Interest expense	19	-	-	-	(2 132 714)	(2 132 714)
Loan fee income		-	-	1 306 619	-	1 306 619
Loan fee expense		-	-	(465 916)	-	(465 916)
Transaction fee income		-	-	-	2 786 393	2 786 393
Transaction fee expense		-	-	-	(859 523)	(859 523)
Dividend income	20	-	8	-	-	8
Net impairment on loans and advances to clients	21	-	-	(3 976 170)	-	(3 976 170)
Net movement in financial instruments held at fair value through profit or loss	22	-	(19 083)	-	-	(19 083)
<b>2013</b>						
Interest income	19	-	73 000	7 011 624	-	7 084 624
Interest expense	19	(189)	-	-	(1 662 278)	(1 662 467)
Loan fee income		-	-	1 496 009	-	1 496 009
Loan fee expense		-	12 716	(355 925)	-	(343 209)
Transaction fee income		-	-	-	2 100 594	2 100 594
Transaction fee expense		-	-	-	(751 768)	(751 768)
Dividend income	20	-	9	-	-	9
Net impairment on loans and advances to clients	21	-	-	(2 658 445)	-	(2 658 445)
Net movement in financial instruments held at fair value through profit or loss	22	-	(298)	-	-	(298)

## 26.9 Fair value hierarchy and classification of financial assets and financial liabilities

### Valuation processes

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

### Hierarchy of fair value of financial instruments

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

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

R'000	Notes	At fair value through profit and loss		At amortised cost		Total	Fair value	Hierarchy of valuation technique
		Deemed 'held for trading'	Designated at initial recognition	Financial assets	Financial liabilities			
<b>2014</b>								
<b>Financial assets</b>								
Cash, cash equivalents and money market funds	4	-	-	9 665 553	-	9 665 553	9 665 553	(2)
Other money market investments	5	-	4 757 036	-	-	4 757 036	4 757 036	Level 2
Loans and advances to clients	6	-	-	30 050 753	-	30 050 753	32 676 984	Level 3
Other receivables	7	-	-	119 735	-	119 735	119 735	(2)
Derivative assets <sup>(1)</sup>	8	-	202 816	-	-	202 816	202 816	Level 2
Group loans receivable	9	-	-	29 983	-	29 983	29 983	(2)
<b>Financial liabilities</b>								
Deposits and bonds	13	-	-	-	35 448 678	35 448 678	35 588 222	Level 2
- Listed bonds		-	-	-	7 414 184	7 414 184	7 493 057	
- Other fixed-term institutional deposits		-	-	-	4 433 615	4 433 615	4 284 264	
- Retail deposits		-	-	-	23 600 879	23 600 879	23 810 902	
Derivative liabilities <sup>(1)</sup>	14	-	719	-	-	719	719	Level 2
Trade and other payables	14	-	-	-	873 061	873 061	873 061	(2)
Provisions	15	-	-	-	11 451	11 451	11 451	(2)
Group loans payable	16	-	-	-	11 609	11 609	11 609	(2)

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

R'000	Notes	At fair value through profit and loss		At amortised cost		Total	Hierarchy of Fair value technique	
		Deemed 'held for trading'	Designated at initial recognition	Financial assets	Financial liabilities			
<b>2013</b>								
<b>Financial assets</b>								
Cash, cash equivalents and money market funds	4	-	-	7 143 078	-	7 143 078	(2)	
Other money market investments	5	-	2 022 906	-	-	2 022 906	Level 2	
Loans and advances to clients	6	-	-	27 930 266	-	27 930 266	Level 3	
Other receivables	7	-	-	67 662	-	67 662	(2)	
Derivative assets <sup>(1)</sup>	8	-	13 521	-	-	13 521	Level 2	
Group loans receivable	9	-	-	30 129	-	30 129	(2)	
<b>Financial liabilities</b>								
Deposits and bonds	13	-	-	-	29 000 191	29 000 191	29 244 981	Level 2
- Listed bonds		-	-	-	6 147 967	6 147 967	6 335 434	
- Other fixed term institutional deposits		-	-	-	5 673 493	5 673 493	5 606 288	
- Retail deposits		-	-	-	17 178 731	17 178 731	17 303 259	
Derivative liabilities <sup>(1)</sup>	14	-	25 637	-	-	25 637	25 637	Level 2
Trade and other payables <sup>(2)</sup>	14	-	-	-	948 220	948 220	947 693	(2)
Provisions	15	-	-	-	28 449	28 449	28 449	(2)
Group loans payable	16	-	-	-	1 584	1 584	1 584	(2)

<sup>(1)</sup> Cash flow hedges.

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

## 26.10 Fair value calculation methods, inputs and techniques

### Investments designated at fair value

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

### Loans and advances to clients

An income approach was used. The expected present value technique was applied, discounting probability weighted cash flows (i.e. expected cash flows which take account of lifetime expected bad debt experience) at a market participant's weighted average cost of capital. The respective weightings given to debt and equity assumed a likely ratio for a hypothetical market participant operating in the same industry as Capitec Bank. The equity component of the cost of capital was determined using the capital asset pricing method. A beta more prudent than the five year average was applied. The market risk premium referenced public survey data from a recognised firm of valuers. The debt component referenced the government R157 as the indicator of the risk-free rate to which a large transaction spread premium was added. A marketability discount was applied in the valuation to address the fact that the assets, on a stand-alone basis, are not typically traded over-the-counter or on any formal exchange.

### Derivative assets and liabilities

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

### Deposits and bonds

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

- *Listed subordinated and senior bonds*

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

- *Unlisted wholesale fixed-term deposits and bonds*

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

- *Retail fixed-term deposits*

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

R'000

2014

2013

## 27. Retirement benefits

The bank contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 23.

90 597	74 786
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Since 1 July 2001 it is compulsory for all new appointments to be members of the provident fund. The company will continue to contribute to the fund on behalf of all members. The company has no exposure in respect of any post-retirement benefits payable.

## 28. Related-party transactions

### Holding company

#### Dividends

Ordinary dividend paid	698 620	467 460
Preference dividend paid	20 420	20 783
<b>Capitec Bank Holdings Limited (holding company)</b>	<b>719 040</b>	<b>488 243</b>

<b>Management fees paid</b>	<b>2 235</b>	730
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#### Loans due to:

Capitec Bank Holdings Limited (holding company)	9 668	1 572
Capitec Bank Holdings Share Trust	1 944	(137)

#### Parties with significant influence

Brokers' fees - PSG Group and subsidiaries <sup>(1)</sup>	45	45
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#### Fellow subsidiaries

Interest received	-	171
Guarantee fees received	-	81
<b>Key Distributors (Pty) Limited (fellow subsidiary)</b>	<b>-</b>	<b>252</b>

#### Loans due from:<sup>(2)</sup>

Capitec Properties (Pty) Limited (fellow subsidiary)	29 983	31 731
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#### Guarantees to Key Distributors (Pty) Limited

Amount of creditors guarantees	-	1 000
Guaranteed creditors balances outstanding	-	1 000

<sup>(1)</sup> PSG Capital is the corporate advisor and sponsor of the group. Transactions requiring the purchase of financial instruments on the open market are conducted through a number of intermediaries.

<sup>(2)</sup> Loans to associates are capped at R5.25 million (2013: R8.25 million) and bear interest at the prime rate.

<sup>(3)</sup> There is a group cross-suretyship limited to amounts owed to a counterparty between Capitec Bank Limited and Capitec Bank Holdings Limited.

R'000

2014

2013

## 28. Related-party transactions *(continued)*

### Key management

#### Key management employee's remuneration

Salaries and other short-term benefits	37 031	38 092
Post-employment benefits	2 551	2 368
Share-based payments	94 443	145 152
<b>Key management compensation<sup>(1)</sup></b>	<b>134 025</b>	<b>185 612</b>

#### Loans and advances to directors and other key management employees included in loans and advances to clients

Loans outstanding at the beginning of the year	157	65
Loans advanced during the year	–	160
Interest charged on loans during the year	–	9
Loan repayments during the year	–	(77)
<b>Loans outstanding at the end of the year</b>	<b>157</b>	<b>157</b>

#### Retail deposits from directors and other key management employees<sup>(2)</sup>

Deposits at the beginning of the year	11 576	4 960
Interest earned during the year	362	334
Deposits made during the year	(6 956)	6 282
<b>Deposits at the end of the year</b>	<b>4 982</b>	<b>11 576</b>

#### 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.

#### Directors' interest in share capital

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

<sup>(1)</sup> Key management are considered to be the members of the executive management committee (excluding development members) and executive directors.

<sup>(2)</sup> Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.

## 28. Related-party transactions (continued)

### Directors' interest in share incentive scheme - options

2014

Directors	Maturity date	Issue date	Strike price R	Opening balance	(Options exercised)/ Options granted		Exercise date	Closing balance
				Number of share options	Number of share options	Market price R		Number of share options
AP du Plessis	14 Apr 13	14 Apr 10	97.30	3 125	(3 125)	212.50	16 Apr 13	–
(direct beneficial)	15 Apr 13	15 Apr 09	31.23	18 750	(18 750)	212.50	16 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	31 250	(31 250)	213.80	25 Apr 13	–
	26 Apr 13	26 Apr 07	35.82	19 000	(19 000)	201.50	07 May 13	–
	12 Apr 14	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	11 Apr 15	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 15	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	10 Apr 16	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	10 Apr 17	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	10 Apr 18	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
	10 Apr 19	10 Apr 13	201.40	–	4 375	–		4 375
				<b>185 250</b>	<b>(54 625)</b>			<b>130 625</b>

## 28. Related-party transactions (continued)

### Directors' interest in share incentive scheme - options

2014

Directors	Maturity date	Issue date	Strike price R	Opening balance	(Options exercised)/ Options granted		Exercise date	Closing balance
				Number of share options	Number of share options	Market price R		Number of share options
GM Fourie (direct beneficial)	14 Apr 13	14 Apr 10	97.30	3 125	(3 125)	212.50	16 Apr 13	–
	15 Apr 13	15 Apr 09	31.23	18 750	(18 750)	212.50	01 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	28 125	(28 125)	213.80	25 Apr 13	–
	26 Apr 13	26 Apr 07	35.82	14 000	(14 000)	217.50	30 Apr 13	–
	12 Apr 14	12 Apr 11	160.09	2 500	–	–		2 500
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	28 125	–	–		28 125
	11 Apr 15	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 15	12 Apr 11	160.09	2 500	–	–		2 500
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	10 Apr 16	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 16	12 Apr 11	160.09	2 500	–	–		2 500
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	01 Nov 16	01 Nov 13	209.83	–	6 875	–		6 875
	10 Apr 17	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 17	12 Apr 11	160.09	2 500	–	–		2 500
01 Nov 17	01 Nov 13	209.83	–	6 875	–		6 875	
10 Apr 18	10 Apr 13	201.40	–	4 375	–		4 375	
11 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000	
01 Nov 18	01 Nov 13	209.83	–	6 875	–		4 375	
10 Apr 19	10 Apr 13	201.40	–	4 375	–		4 375	
01 Nov 19	01 Nov 13	209.83	–	6 875	–		6 875	
				<b>169 000</b>	<b>(19 000)</b>			<b>150 000</b>
R Stassen (direct beneficial)	14 Apr 13	14 Apr 10	97.30	6 250	(6 250)	212.50	16 Apr 13	–
	15 Apr 13	15 Apr 09	31.23	62 500	(62 500)	212.50	16 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	125 000	(125 000)	213.80	25 Apr 13	–
	12 Apr 14	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–		62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–		125 000
	11 Apr 15	11 Apr 12	198.52	12 500	–	–		12 500
	12 Apr 15	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–		6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–		62 500
	11 Apr 16	11 Apr 12	198.52	12 500	–	–		12 500
	12 Apr 16	12 Apr 11	160.09	7 500	–	–		7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–		6 250
11 Apr 17	11 Apr 12	198.52	12 500	–	–		12 500	
12 Apr 17	12 Apr 11	160.09	7 500	–	–		7 500	
11 Apr 18	11 Apr 12	198.52	12 500	–	–		12 500	
				<b>542 500</b>	<b>(193 750)</b>			<b>348 750</b>
<b>Total</b>				<b>896 750</b>	<b>(267 375)</b>			<b>629 375</b>



## 28. Related-party transactions (continued)

### Directors' interest in share incentive scheme - share appreciation rights

2014				Opening balance	(SAR exercised) / SAR granted		Closing balance	
Directors	Maturity date	Issue date	SAR exercise price R	Number of SAR	Number of SAR	Market price R	Exercise date	Number of SAR
AP du Plessis	14 Apr 13	14 Apr 10	97.30	3 125	(3 125)	217.00	15 Apr 13	–
(direct beneficial)	15 Apr 13	15 Apr 09	31.23	18 750	(18 750)	217.00	15 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	31 250	(31 250)	216.50	22 Apr 13	–
	12 Apr 14	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 14	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–		18 750
	21 Apr 14	21 Apr 08	35.54	31 250	–	–		31 250
	11 Apr 15	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 15	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 15	14 Apr 10	97.30	3 125	–	–		3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–		18 750
	10 Apr 16	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 16	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 16	12 Apr 11	160.09	3 750	–	–		3 750
	14 Apr 16	14 Apr 10	97.30	3 125	–	–		3 125
	10 Apr 17	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 17	11 Apr 12	198.52	5 000	–	–		5 000
	12 Apr 17	12 Apr 11	160.09	3 750	–	–		3 750
	10 Apr 18	10 Apr 13	201.40	–	4 375	–		4 375
	11 Apr 18	11 Apr 12	198.52	5 000	–	–		5 000
	10 Apr 19	10 Apr 13	201.40	–	4 375	–		4 375
				<b>166 250</b>	<b>(35 625)</b>			<b>130 625</b>

## 28. Related-party transactions (continued)

### Directors' interest in share incentive scheme - share appreciation rights

2014				Opening balance	(SAR exercised) / SAR granted			Closing balance
Directors	Maturity date	Issue date	SAR exercise price R	Number of SAR	Number of SAR	Market price R	Exercise date	Number of SAR
GM Fourie	14 Apr 13	14 Apr 10	97.30	3 125	(3 125)	217.00	15 Apr 13	–
(direct beneficial)	15 Apr 13	15 Apr 09	31.23	18 750	(18 750)	217.00	15 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	28 125	(28 125)	216.00	26 Apr 13	–
	12 Apr 14	12 Apr 11	160.09	2 500	–	–	–	2 500
	14 Apr 14	14 Apr 10	97.30	3 125	–	–	–	3 125
	15 Apr 14	15 Apr 09	31.23	18 750	–	–	–	18 750
	21 Apr 14	21 Apr 08	35.54	28 125	–	–	–	28 125
	11 Apr 15	11 Apr 12	198.52	5 000	–	–	–	5 000
	12 Apr 15	12 Apr 11	160.09	2 500	–	–	–	2 500
	14 Apr 15	14 Apr 10	97.30	3 125	–	–	–	3 125
	15 Apr 15	15 Apr 09	31.23	18 750	–	–	–	18 750
	10 Apr 16	10 Apr 13	201.40	–	4 375	–	–	4 375
	11 Apr 16	11 Apr 12	198.52	5 000	–	–	–	5 000
	12 Apr 16	12 Apr 11	160.09	2 500	–	–	–	2 500
	14 Apr 16	14 Apr 10	97.30	3 125	–	–	–	3 125
	01 Nov 16	01 Nov 13	209.83	–	6 875	–	–	6 875
	10 Apr 17	10 Apr 13	201.40	–	4 375	–	–	4 375
	11 Apr 17	11 Apr 12	198.52	5 000	–	–	–	5 000
	12 Apr 17	12 Apr 11	160.09	2 500	–	–	–	2 500
	01 Nov 17	01 Nov 13	209.83	–	6 875	–	–	6 875
	10 Apr 18	10 Apr 13	201.40	–	4 375	–	–	4 375
	11 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Nov 18	01 Nov 13	209.83	–	6 875	–	–	6 875
	10 Apr 19	10 Apr 13	201.40	–	4 375	–	–	4 375
	01 Nov 19	01 Nov 13	209.83	–	6 875	–	–	6 875
				<b>155 000</b>	<b>(5 000)</b>			<b>150 000</b>
R Stassen	14 Apr 13	14 Apr 10	97.30	6 250	(6 250)	217.00	15 Apr 13	–
(direct beneficial)	15 Apr 13	15 Apr 09	31.23	62 500	(62 500)	217.00	15 Apr 13	–
	21 Apr 13	21 Apr 08	35.54	125 000	(125 000)	216.50	22 Apr 13	–
	12 Apr 14	12 Apr 11	160.09	7 500	–	–	–	7 500
	14 Apr 14	14 Apr 10	97.30	6 250	–	–	–	6 250
	15 Apr 14	15 Apr 09	31.23	62 500	–	–	–	62 500
	21 Apr 14	21 Apr 08	35.54	125 000	–	–	–	125 000
	11 Apr 15	11 Apr 12	198.52	12 500	–	–	–	12 500
	12 Apr 15	12 Apr 11	160.09	7 500	–	–	–	7 500
	14 Apr 15	14 Apr 10	97.30	6 250	–	–	–	6 250
	15 Apr 15	15 Apr 09	31.23	62 500	–	–	–	62 500
	11 Apr 16	11 Apr 12	198.52	12 500	–	–	–	12 500
	12 Apr 16	12 Apr 11	160.09	7 500	–	–	–	7 500
	14 Apr 16	14 Apr 10	97.30	6 250	–	–	–	6 250
	11 Apr 17	11 Apr 12	198.52	12 500	–	–	–	12 500
	12 Apr 17	12 Apr 11	160.09	7 500	–	–	–	7 500
	11 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				<b>542 500</b>	<b>(193 750)</b>			<b>348 750</b>
<b>Total</b>				<b>863 750</b>	<b>(234 375)</b>			<b>629 375</b>

## 28. Related-party transactions (continued)

### Directors' remuneration

The total share option expense relating to directors amounted to R41 788 400 (2013: R37 510 701) and share appreciation rights expense amounted to R39 470 824 (2013: R35 092 255). This expense includes the movement on all tranches.

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
<b>2014</b>						
<b>Executive<sup>(1)</sup></b>						
AP du Plessis	5 058	60	40	–	5 158	208
GM Fourie <sup>(2)</sup>	2 373	28	35	–	2 436	327
R Stassen <sup>(3)</sup>	8 859	105	88	–	9 053	–
<b>Non-executive</b>						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	260	260	–
JD McKenzie	–	–	–	445	445	–
NS Mjoli-Mncube	–	–	–	260	260	–
PJ Mouton	–	–	–	392	392	–
CA Otto	–	–	–	489	489	–
G Pretorius	–	–	–	260	260	–
R Stassen <sup>(3)</sup>	–	–	–	40	40	–
JP van der Merwe	–	–	–	489	489	–
	<b>16 290</b>	<b>193</b>	<b>163</b>	<b>3 675</b>	<b>20 321</b>	<b>535</b>
<b>2013</b>						
<b>Executive</b>						
AP du Plessis	4 542	54	383	–	4 979	250
R Stassen	9 605	338	856	–	10 799	624
<b>Non-executive</b>						
MS du P le Roux (Chairman)	–	–	–	1 040	1 040	–
RJ Huntley	–	–	–	241	241	–
MJ Jooste <sup>(4)</sup>	–	–	–	102	102	–
JD McKenzie	–	–	–	281	281	–
MC Mehl <sup>(5)</sup>	–	–	–	341	341	–
NS Mjoli-Mncube	–	–	–	281	281	–
PJ Mouton	–	–	–	446	446	–
CA Otto	–	–	–	428	428	–
G Pretorius <sup>(6)</sup>	–	–	–	60	60	–
JP van der Merwe	–	–	–	428	428	–
	<b>14 147</b>	<b>392</b>	<b>1 239</b>	<b>3 648</b>	<b>19 426</b>	<b>874</b>

<sup>(1)</sup> The executive directors and the executive management committee are the prescribed officers of the company.

<sup>(2)</sup> Appointed 20 September 2013.

<sup>(3)</sup> Retired on 31 December 2013 and remains involved as a non-executive director from 1 January 2014. The executive director's remuneration includes remuneration up to 31 December 2013.

<sup>(4)</sup> Director's fees paid to Steinhoff International Holdings Limited. Resigned 2 August 2012.

<sup>(5)</sup> Deceased 30 January 2013.

<sup>(6)</sup> Appointed 19 November 2012.

## 28. Related-party transactions (continued)

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

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year on reporting date
<b>2014</b>					
JC Carstens	2 296	30	18	2 343	60
CG Fischer	3 188	39	25	3 252	119
GM Fourie <sup>(1)</sup>	2 540	30	–	2 570	–
H AJ Lourens <sup>(2)</sup>	458	6	17	481	60
NST Motjuwadi	2 150	28	17	2 195	60
A Olivier	3 221	44	29	3 294	179
C Oosthuizen	3 196	44	29	3 269	119
CG van Schalkwyk	2 234	32	20	2 286	60
L Venter	3 179	39	25	3 244	119
	<b>22 461</b>	<b>292</b>	<b>180</b>	<b>22 933</b>	<b>774</b>
<b>2013</b>					
JC Carstens	2 154	28	181	2 363	62
CG Fischer	2 958	37	250	3 245	156
GM Fourie	3 860	48	338	4 246	250
NST Motjuwadi	1 858	25	158	2 041	–
A Olivier	3 308	41	279	3 628	187
C Oosthuizen	2 992	42	288	3 321	156
CG van Schalkwyk	2 325	30	196	2 551	78
L Venter	2 917	36	246	3 199	125
	<b>22 372</b>	<b>287</b>	<b>1 936</b>	<b>24 594</b>	<b>1 014</b>

The total share option expense relating to prescribed officers above amounted to R7 099 855 (2013: 40 466 016) and share appreciation rights expense amounted to R6 083 554 (2013: R32 083 063). This expense includes the movement on all tranches.

Financial assistance amounting to R787 926 (2013: R1 104 472) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to Rnil (2013: R2 104 336).

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

<sup>(2)</sup> Appointed as a prescribed officer on 1 January 2014. The remuneration includes remuneration from January 2014.

R'000

2014

2013

**29. Cash flow from operations**

Net profit before tax	2 789 556	2 163 162
<b>Adjusted for non-cash items</b>		
Fair value adjustments on financial assets	19 083	298
Loan impairment charge	914 362	1 178 027
Depreciation	248 794	195 634
Amortisation	76 164	51 070
Loss/(profit) on disposal of assets	80	(339)
<b>Movements in assets and liabilities</b>		
Loans and advances to clients	(3 034 849)	(12 257 889)
Inventory	–	16 328
Other receivables	(95 856)	(79 358)
Deposits and bonds	6 368 699	11 308 570
Trade and other payables	75 762	71 638
Movements in provisions	(16 998)	3 451
Share-based employee costs - options	(89 291)	(89 403)
Share-based employee costs - share appreciation rights	(61 729)	(28 934)
<b>Cash flow from operations</b>	<b>7 193 777</b>	<b>2 532 255</b>

**30. Income taxes paid**

Balance at the beginning of the year	46 007	(61 446)
Income statement charge	780 785	641 451
Movement in deferred tax	(19 369)	41 499
Balance at the end of the year	22 519	(46 007)
<b>Income tax paid</b>	<b>829 942</b>	<b>575 497</b>

**31. Dividends paid**

Balance at the beginning of the year	10 077	9 657
Dividend declared during the year:		
Ordinary dividend	698 620	467 460
Preference dividend	20 420	20 783
Balance at the end of the year	(10 176)	(10 077)
<b>Dividends paid</b>	<b>718 941</b>	<b>487 823</b>

R'000

2014

2013

## 32. Commitments and contingent liabilities

### Property operating lease commitments

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

Within one year	255 012	206 681
From one to five years	738 757	591 547
After five years	215 552	170 639
<b>Total future cash flows</b>	<b>1 209 321</b>	968 867
Straight-lining accrued	(57 201)	(46 432)
<b>Future expenses</b>	<b>1 152 120</b>	922 435

### Other operating lease commitments

Within one year	2 023	2 207
From one to five years	1 472	3 490
	<b>3 495</b>	5 697

### Capital commitments – approved by the board

#### Contracted for

Property and equipment	26 622	42 645
Intangible assets	8 456	13 119

#### Not contracted for

Property and equipment	397 505	524 971
Intangible assets	138 914	169 438
	<b>571 497</b>	750 173

A financial guarantee in favour of a lessor in respect of a lease agreement to the amount of R0.1 million was entered into on 9 May 2013 and is applicable until the expiry of the lease on 30 September 2021.

### Contingent liability

In last year's annual report the board reported that a notice had been received from the National Credit Regulator alleging contraventions of the National Credit Act. The board reported that it had taken legal advice and believed the matter would be resolved satisfactorily through due process. The matter was heard by the National Consumer Tribunal on 13 March 2014 and judgement was reserved. As reported previously, due to uncertainties that currently exist, it remains not practicable to estimate the financial effect of any possible outcome.

## 33. Borrowing powers

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

These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990) and section 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the Annual General Meeting on 31 May 2013 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company, on the terms and conditions and for the amount that the board may determine.

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

### 34. 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% (2013: 20%) of their monthly salary. The purchase price includes a subsidy of 20% (2013: 20%) and the transaction costs are borne by the company. The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

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

Number	2014	2013
<b>Options issued to employees of Capitec Bank Limited</b>		
Balance at the beginning of the year	2 176 825	3 086 893
Options granted	187 500	204 853
Options cancelled and/or lapsed	(1 250)	(6 250)
Options exercised	(860 290)	(1 108 671)
Balance at the end of the year	1 502 785	2 176 825

Analysis of outstanding share options by year of maturity	2014		2013	
	Weighted average strike price R	Number	Weighted average strike price R	Number
<b>Financial year</b>				
2013/2014	–	–	38.11	860 290
2014/2015	44.72	694 896	44.71	696 146
2015/2016	77.23	353 612	77.23	353 612
2016/2017	166.90	177 028	153.91	130 153
2017/2018	189.96	132 283	182.81	85 408
2018/2019	200.37	98 091	197.98	51 216
2019/2020	202.97	46 875	–	–
	94.65	1 502 785	62.94	2 176 825

Number	2014	2013
Treasury shares available from previous periods	4 014	–
Shares purchased/issued during the year	856 276	1 112 685
Shares utilised for settlement of options	(860 290)	(1 108 671)
<b>Shares available for settlement of options</b>	–	4 014
Settled in shares	(860 290)	(1 108 671)
<b>Options exercised</b>	(860 290)	(1 108 671)

## 35. Share option liability

### Data utilised in the valuation of options granted

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

Year granted	Strike price R	Year maturing	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion <sup>(2)</sup> %	Fair Value R'000	Portion of term expired %	Liability at year end R'000
2008/2009	28.96	2014/2015	6.6	6 250	937	94.0	881	85.8	756
	35.54	2014/2015	5.7	386 250	56 936	99.0	56 351	97.6	55 014
2009/2010	31.23	2014/2015	5.7	206 875	31 400	99.1	31 114	97.5	30 330
		2015/2016	6.8	206 875	30 281	92.2	27 907	81.2	22 672
	45.49	2014/2015	6.3	12 500	1 690	95.5	1 614	87.2	1 408
		2015/2016	7.1	12 500	1 638	88.8	1 455	72.7	1 058
	61.05	2014/2015	6.3	4 095	492	95.2	468	86.5	405
		2015/2016	7.1	4 095	479	88.6	425	72.1	306
2010/2011	97.30	2014/2015	5.7	41 560	3 581	99.1	3 550	96.9	3 440
		2015/2016	6.8	41 565	3 549	92.2	3 271	77.5	2 537
		2016/2017	7.3	41 565	3 576	85.7	3 065	64.6	1 980
	117.79	2014/2015	6.0	3 184	209	97.0	203	89.5	182
		2015/2016	7.0	3 184	218	90.2	197	71.6	141
		2016/2017	7.4	3 184	229	83.9	192	59.6	114
2011/2012	160.09	2014/2015	5.7	34 182	843	99.1	836	96.1	803
		2015/2016	6.8	34 182	1 276	92.2	1 176	72.1	848
		2016/2017	7.3	34 193	1 558	85.7	1 336	57.6	770
		2017/2018	7.6	34 193	1 763	79.7	1 406	48.0	675
2012/2013	182.40	2015/2016	6.8	1 713	42	93.0	39	66.6	26
		2016/2017	7.3	1 713	59	86.5	51	49.9	26
		2017/2018	7.6	1 713	72	80.4	58	39.9	23
		2018/2019	7.9	1 714	81	74.8	61	33.3	20
	198.52	2015/2016	6.8	49 498	966	92.2	891	62.8	560
		2016/2017	7.3	49 498	1 459	85.8	1 251	47.1	589
		2017/2018	7.6	49 502	1 826	79.8	1 456	37.7	549
		2018/2019	7.9	49 502	2 110	74.2	1 565	31.4	492
2013/2014	201.40	2016/2017	7.3	38 125	1 086	85.8	932	29.6	275
		2017/2018	7.6	38 125	1 371	79.8	1 093	22.2	242
		2018/2019	7.9	38 125	1 592	74.2	1 181	17.7	210
		2019/2020	8.0	38 125	1 770	69.0	1 222	14.8	181
	209.83	2016/2017	7.5	8 750	265	82.4	218	10.9	24
		2017/2018	7.8	8 750	322	76.6	247	8.1	20
		2018/2019	8.0	8 750	369	71.2	263	6.5	17
		2019/2020	8.1	8 750	406	66.3	269	5.4	15
<b>Grand total</b>				<b>1 502 785</b>	<b>154 451</b>	<b>94.7</b>	<b>146 244</b>	<b>86.6</b>	<b>126 706</b>

<sup>(1)</sup> All options were valued using the Black-Scholes model and the following variables:

Dividend yield	4.1%
Volatility	31.5%
ex dividend share price	176.59

<sup>(2)</sup> Executive staff turnover of 7% p.a. (2013: 7%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.



## 36. Share appreciation rights

### Data utilised in the valuation of share appreciation rights granted

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

Year granted	Strike price	Year maturing	Risk-free rate	Number of options outstanding	Fair value	Portion of term expired	Expected vesting proportion <sup>(2)</sup>	Liability at year-end
2008/2009	28.96	2014/2015	6.6	6 250	937	85.8	94.0	756
	35.54	2014/2015	5.7	386 250	56 936	97.6	99.0	55 014
2009/2010	31.23	2014/2015	5.7	206 875	31 400	97.5	99.1	30 330
		2015/2016	6.8	206 875	30 281	81.2	92.2	22 672
	45.49	2014/2015	6.3	12 500	1 690	87.2	95.5	1 408
		2015/2016	7.1	12 500	1 638	72.7	88.8	1 058
	61.05	2014/2015	6.3	4 095	492	86.5	95.2	405
		2015/2016	7.1	4 095	479	72.1	88.6	306
2010/2011	97.30	2014/2015	5.7	41 560	3 581	96.9	99.1	3 440
		2015/2016	6.8	41 565	3 549	77.5	92.2	2 537
		2016/2017	7.3	41 565	3 576	64.6	85.7	1 980
	117.79	2014/2015	6.0	3 184	209	89.5	97.0	182
		2015/2016	7.0	3 184	218	71.6	90.2	141
		2016/2017	7.4	3 184	229	59.6	83.9	114
2011/2012	160.09	2014/2015	5.7	34 182	843	96.1	99.1	803
		2015/2016	6.8	34 182	1 276	72.1	92.2	848
		2016/2017	7.3	34 193	1 558	57.6	85.7	770
		2017/2018	7.6	34 193	1 763	48.0	79.7	675
2012/2013	182.40	2015/2016	6.8	1 713	42	66.6	93.0	26
		2016/2017	7.3	1 713	59	49.9	86.5	26
		2017/2018	7.6	1 713	72	39.9	80.4	23
		2018/2019	7.9	1 714	81	33.3	74.8	20
	198.52	2015/2016	6.8	49 498	966	62.8	92.2	560
		2016/2017	7.3	49 498	1 459	47.1	85.8	589
		2017/2018	7.6	49 502	1 826	37.7	79.8	549
		2018/2019	7.9	49 502	2 110	31.4	74.2	492
2013/2014	201.40	2016/2017	7.3	38 125	1 086	29.6	85.8	275
		2017/2018	7.6	38 125	1 371	22.2	79.8	241
		2018/2019	7.9	38 125	1 592	17.7	74.2	209
		2019/2020	8.0	38 125	1 770	14.8	69.0	180
	209.83	2016/2017	7.5	8 750	265	10.9	82.4	23
		2017/2018	7.8	8 750	322	8.1	76.6	19
		2018/2019	8.0	8 750	369	6.5	71.2	16
		2019/2020	8.1	8 750	406	5.4	66.3	14
<b>Grand total</b>				<b>1 502 785</b>	<b>154 452</b>	<b>86.6</b>	<b>82.0</b>	<b>126 699</b>

Note

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

Dividend yield 4.1%

Volatility 31.5%

Ex dividend share price (cents) 176.59

<sup>(2)</sup> Executive staff turnover of 7% p.a. (2013: 7%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 is done on an annual basis.

### 37. Derivative financial instruments: economic hedges

R'000	Notional amount	Fair values	
		Assets	Liabilities
<b>2014</b>			
Forward foreign exchange contracts			
Notional amounts in ZAR	40 951	(982)	19
Notional amounts in USD	3 885		
<b>2013</b>			
Forward foreign exchange contracts			
Notional amounts in ZAR	-	-	-
Notional amounts in USD	-		

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R41 million (2013: nil).

### 38. Derivative financial instruments: cash flow hedges

R'000	Notional amount	Fair values	
		Assets	Liabilities
<b>2014</b>			
Interest rate swaps	3 989 349	(99 533)	700
Cross currency interest rate swaps	396 900	(102 301)	-
Net	4 386 249	(201 834)	700
<b>2013</b>			
Interest rate swaps	3 189 349	(208)	25 637
Cross currency interest rate swaps	396 900	(3 186)	-
Net	3 586 249	(3 394)	25 637

R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
<b>2014</b>					
Discounted swap cash flows	-	(384)	(29 573)	(68 876)	(98 833)
Discounted cross currency interest rate swap cash flows	-	4 410	12 944	(119 655)	(102 300)
Net	-	4 026	16 629	(188 531)	(201 134)
<b>2013</b>					
Discounted swap cash flows	-	5 309	17 454	2 666	25 429
Discounted cross currency interest rate swap cash flows	-	15	278	(3 479)	(3 186)
Net	-	5 324	17 732	(813)	22 243

Gains and losses recognised in comprehensive income (note 18) on rate swap contracts will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

### 38. Derivative financial instruments: cash flow hedges (continued)

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

At 28 February 2014, the fixed interest rates were between 5.21% and 6.32% (2013: 5.26% and 6.32%) (excluding credit spread) and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 28 February 2014.

The fair value adjustment transferred to the income statement amounted to an income of R53.2 million (2013: R14.1 million expense) 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 2014 and 2013. There were no transactions for which cash flow hedge accounting had to be discontinued in 2014 and 2013 as a result of highly probable cash flow no longer being expected to occur.

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

Year ended 28 February 2014		Amount held	Holding
Holder	Instrument held	R'000	%
Standard Chartered Bank (Taiwan) Limited	Wholesale	486 690	35.7
Nedbank Limited	Wholesale	178 120	13.1
Sanlam Developing Markets Limited	Wholesale	120 371	8.8
Shisa Investments Proprietary Limited	Wholesale	106 033	7.8
Channel Life Limited	Wholesale	83 576	6.1
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	Wholesale	78 615	5.8
Sanlam Capital Markets Limited	Wholesale	75 066	5.5
Sanlam Investment Management, a division of Sanlam Life Insurance Limited	Wholesale	75 066	5.5
Sanlam Credit Conduit Proprietary Limited	Wholesale	75 066	5.5
Stanlib Income Fund	Subordinated unlisted bond	334 870	33.3
IAL Credit Opps2A UPF Z	Subordinated unlisted bond	184 328	18.3
Investec Credit Opportunities 5 Proprietary Limited	Subordinated unlisted bond	66 328	6.6
Investec Corporate Bond Fund	Subordinated listed bond	480 475	25.0
Old Mutual Specialised Finance	Subordinated listed bond	334 531	17.4
Investec High Income Fund	Subordinated listed bond	224 818	11.7
Old Mutual Life Assurance Company (South Africa) Limited	Listed senior bond	811 201	14.8
Sanlam Life Insurance Limited	Listed senior bond	617 399	11.2
Stanlib Income Fund	Listed senior bond	386 875	7.0
Government Employment Pension Fund Bonds	Listed senior bond	345 827	6.3
Peritum Trading Proprietary Limited	Other unlisted negotiable instruments	227 034	12.1
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	186 041	9.9
Old Mutual Life Assurance Company (South Africa) Limited	Other unlisted negotiable instruments	94 012	6.4
SCB ATF - Cadiz Money Market Fund	Other unlisted negotiable instruments	93 979	5.0

### 40. Material events after year-end

No event, which is material to the financial affairs of the company, has occurred between the reporting date and the date of approval of the financial statements.

*Glossary*  
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<b>Acronym</b>	<b>Description</b>	<b>Acronym</b>	<b>Description</b>
AGM	Annual general meeting	ICAAP	Internal capital adequacy assessment process
ALCO	Asset and liability committee	ICR	Individual capital requirement
ALM	Asset and liability management	IFRS	International Financial Reporting Standards
AMPS	All Media and Products Survey	IIRC	International Integrated Reporting Council
AT1	Additional tier 1	IIRF	International Integrated Reporting Framework
BASA	Banking Association of South Africa	IRM	Integrated risk management
B-BBEE	Broad-based Black Economic Empowerment	ISMS	Information security management system
BCBS	Basel Committee on Banking Supervision	IT	Information technology
C.Connect	Electronic communications	JSE	Johannesburg Stock Exchange
C.Net	Web-based employee portal	LCR	Liquidity coverage ratio
Capitec	Capitec Bank Holdings Limited	LDT	Last day to trade
Capitec Bank	Capitec Bank Limited	LRP	Liquidity recovery plan
Capitec Bank pillars	Simplicity, affordability, accessibility and personal service	LSM	Living standards measure
CCS	Central collection services	Moody's	Moody's Investors Services Inc.
CET1	Common equity tier 1	NAEDO	Non-authenticated early debit order
CMT	Continuity management team	NCA	National Credit Act, 2005
CPA	Credit Providers Association	NCR	National Credit Regulator
CSI	Corporate Social Investment	NSFR	Net stable funding ratio
DEFRA	UK Department for Environment, Food and Rural Affairs	OCR	Optical character recognition
DR	Disaster recovery	PASA	Payments Association of South Africa
DPS	Dividends per share	POCA	Prevention of Organised Crime Act, 1998
D-SIB	Domestically systemically important bank	Polproc	Policies and procedures department
EEA2	Employment Equity Act form 2	PwC	PricewaterhouseCoopers Inc.
EXCO	Executive Management Committee	RCMC	Risk and capital management committee
FICA	Financial Intelligence Centre Act, 2001	REMCO	Human Resources and remuneration committee
FSC	Forest Stewardship Council	RISCO	Risk committee
GDP	Gross Domestic Product	ROE	Return-on-equity
GHG	Greenhouse gas	SAMOS	South African Multiple Option Settlement
GRI	Global Reporting Initiative's	SARB	South African Reserve Bank
HEPS	Headline earnings per share	SARS	South African Revenue Services
IA	Internal audit	SARs	Share appreciation rights
IAR	Integrated annual report	Stats SA	Statistics South Africa
		T2	Tier 2



## Administration and addresses

### Capitec Bank Limited

#### Registration number

1980/003695/06

#### Auditors

PricewaterhouseCoopers Inc.

#### Directors

MS du Pré le Roux (Chairman)

GM Fourie (Chief executive officer)

(appointed to the board on 20 September 2014 and  
as CEO effective 1 January 2014)

AP du Plessis (Chief financial officer)

RJ Huntley (Ms)

JD McKenzie

NS Mjoli-Mncube (Ms)

PJ Mouton

CA Otto

G Pretorius

R Stassen (retired as CEO effective  
31 December 2013)

JP van der Merwe

#### Secretary

CG van Schalkwyk

#### Registered address

1 Quantum Street, Techno Park,  
Stellenbosch 7600

#### Postal address

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