



People - is what banking is all about

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

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Capitec at a Glance

Bank better, live better



Why we are in business

At Capitec, we have a mission to help people better manage their financial lives.

We believe that banking should not cost our clients more time or money, but should enable them to spend it on the things that matter to them the most.

How we do business

We make banking simple and transparent, easy to access from anywhere at any time. We offer value for money, and deliver it through personalised service.

These help our clients feel in control of their money.

What we do

We offer one solution called Global One, which allows our clients to do transactions worldwide using their card or phone. Global One allows clients to save money and earn higher interest, as well as to access affordable and responsible credit in minutes whenever they may need it.



Timeline



The journey to becoming the best retail bank in the world

1993

OUR ENVIRONMENT

Birth of the unsecured credit market in South Africa after an exemption was made to the Usury Act of 1968.

1998 - 2000

OUR ENVIRONMENT

Google was launched.

CAPITEC

A small number of people launched a micro-finance personal loan institution, later to be named Capitec after a public survey was done.

2001

CAPITEC

We obtained a banking licence. Our first ATM was installed. On 1 March 2001 at 8 am sharp, our first "bancs software operated" branch was opened in Parow, Voortrekker Street.



100th **FIRM** FOUNDATION







2010

OUR ENVIRONMENT

South Africa hosted the FIFA World Cup.

CAPITEC

The 100th Firm Foundation class on the 30th of June 2010, a total of 5 378 delegates trained since inception.

2009

OUR ENVIRONMENT

The South African economy went into recession.

CAPITEC

We did more loan transactions per month than any other bank in South Africa.

2008

OUR ENVIRONMENT

Internet users in South Africa grew to 5 million.

CAPITEC

We introduced the first open-platform fixed-term savings plan with the highest interest rates available.

Launched internet banking. Number of clients: 2 000 000







2011

CAPITEC

We launched our mobile banking USSD platform. International shareholders accounted for 1.5% of Capitec's total shareholding.

2012

CAPITEC

Our Global One card was upgraded from Maestro to Debit MasterCard.

2013

OUR ENVIRONMENT

South Africa Banks required to comply with Basel 3 requirements.

CAPITEC

We launched a centralised collection system to enhance the bank's loan collections efficiency.



GlobalOne



2002

OUR ENVIRONMENT

Saambou Bank placed under curatorship.

CAPITEC

On 18 February Capitec was listed on the JSE and closed the day on R1.70 a share.

2003

CAPITEC

We launched Global One the first all-in-one facility.

2004

OUR ENVIRONMENT

Facebook launched in the United States of America.

CAPITEC

We introduced the world's first biometric scanning in banking, using fingerprint technology.





1 000 000



1st **FIRM FOUNDATION**

2007

OUR ENVIRONMENT

The first Apple iPhone released.

CAPITEC

We launched our first advertising campaign.

2006

OUR ENVIRONMENT

Twitter was launched.

CAPITEC

Number of clients: 1 000 000 Number of employees: 2000

2005

OUR ENVIRONMENT

The National Credit Act was signed into law.

CAPITEC

Our first Firm Foundations Training Academy was started on the 21st of June 2005 with 47 delegates in the first class.





700th **BRANCH**



2014

OUR ENVIRONMENT

African Bank placed under curatorship.

CAPITEC

We launched our Cellphone Banking Application.

Co-operation agreement was reached between Capitec Bank and SA Home Loans, providing consumers with access to mortgage loans.

2015

OUR ENVIRONMENT

South Africa reached over 28 million internet users.

CAPITEC

In October 2015 we opened our 700th branch.

2016

OUR ENVIRONMENT

On the 6th of May 2016 the Department of Trade and Industry introduced pricing regulations.

CAPITEC

Launched the credit card, credit facility and credit insurance products.

International shareholders accounted for 22% of Capitec's total shareholding.

Business Model



save

- Transaction/savings account
- Flexible savings account
- Fixed-term savings account:
 - single deposit
 - multiple deposit
- Tax-free savings account





transact

- Branches
- ATMs and supermarket tills
- Online shopping
- USSD mobile banking
- Internet banking
- Cellphone banking application
- Card
- Merchant solutions
- Employer salary transfer facility





credit

- Personal loans
- Credit facility
- Credit card

Group Structure

Board of directors	14.9% (2016: 15.1%)
Executive management committee (excluding executive directors)	1.2% (2016: 2.1%)
PSG Group	30.7% (2016: 30.7%)
Direct black ownership	8.7% (2016: 8.7%)
Free float	44.5% (2016: 43.4%)

Capitec Bank Holdings Limited

1999/025903/06 Registered bank controlling company Incorporated in RSA Listed on the JSE – Bank sector (since 2002)

100%

Capitec Bank Limited

1980/003695/06 Incorporated in RSA Retail Bank

100%

Capitec Properties Proprietary Limited

1998/007658/07 Incorporated in RSA Property holding company 100%

Keymatrix Proprietary Limited

1999/010617/07 Incorporated in RSA Dormant

100%

Keynes Rational Corporate Services **Proprietary Limited**

1999/014817/07 Incorporated in RSA Dormant

Key Performance **Indicators**

Extended banking hours

dumetan

No need to spend lunchtime at the bank

nello

Save







Clients

ATMs 4 024 (2016: 3 705)

5.8 million (2016: 4.2 million) Cellphone clients

Key performance indicators

		2017	2016	Change (%)	2015	2014
Profitability						
Interest income	R'm	14 934	13 413*	11	11 487*	10 204*
Loan fee income	R'm	1 137	607*	87	542*	536*
Total lending and investment income	R'm	16 071	14 020	15	12 029	10 740
Interest expense	R'm	(3 552)	(2 884)	23	(2 426)	(2 133)
Loan fee expense	R'm	(642)	(690)	(7)	(627)	(466)
Total lending and investment expenses	R'm	(4 194)	(3 574)	17	(3 053)	(2 599)
Net lending and investment income	R'm	11 877	10 446	14	8 976	8 141
Net transaction fee income	R'm	3 923	3 020	30	2 608	1 928
Other income	R'm	_	(1)		22	(19)
Income from operations	R'm	15 800	13 465	17	11 606	10 050
Net loan impairment expense	R'm	(5 121)	(4 401)	16	(4 014)	(3 976)
Net income	R'm	10 679	9 064	18	7 592	6 074
Operating expenses	R'm	(5 439)	(4 591)	18	(4 031)	(3 242)
Non-banking operations	R'm	_	_		(1)	2
Income before tax	R'm	5 240	4 473	17	3 560	2 834
Tax	R'm	(1 434)	(1 244)	15	(995)	(797)
Preference dividend	R'm	(16)	(16)		(18)	(20)
Earnings attributable to ordinary shareholders						
Basic	R'm	3 790	3 213	18	2 547	2 017
Headline	R'm	3 793	3 222	18	2 547	2 017
Net transaction fee to net income	%	37	33		34	32
Net transaction fee to operating expenses	%	72	66		65	59
Cost-to-income ratio	%	34	34		35	32
Return on ordinary shareholders equity	%	27	27		25	23
Earnings per share						
Attributable	cents	3 278	2 779	18	2 209	1 752
Headline	cents	3 281	2 787	18	2 209	1 752
Diluted attributable	cents	3 267	2 773	18	2 206	1 740
Diluted headline	cents	3 270	2 781	18	2 206	1 740
Dividends per share						
Interim	cents	450	375	20	246	203
Final	cents	800	680	18	590	460
Total	cents	1 250	1 055	18	836	663
Dividend cover	X	2.6	2.6		2.6	2.6
Assets						
Net loans and advances	R'm	39 205	35 760	10	32 484	30 053
Cash, cash equivalents and other liquid assets	R'm	30 605	24 989	22	19 755	14 423
Other	R'm	3 548	2 196	62	1 678	1 715
Total assets	R'm	73 358	62 945	17	53 917	46 191
Liabilities						
Deposits and bonds	R'm	55 582	47 940	16	41 181	35 449
Other	R'm	1 658	1 346	23	1 172	760
Total liabilities	R'm	57 240	49 286	16	42 353	36 209
Equity						
Shareholders' funds	R'm	16 118	13 659	18	11 564	9 982
Capital adequacy ratio	%	34	35		36	39
Net asset value per ordinary share	cents	13 809	11 663	18	9 822	8 433
Share price	cents	72 500	47 400	53	41 000	18 375
Market capitalisation	R'm	83 830	54 807	53	47 407	21 186
Number of shares in issue	'000	115 627	115 627		115 627	115 298

		2017	2016	Change (%)	2015	2014
Share options				,		
Number outstanding	'000	963	868	11	710	1 503
Number outstanding to shares in issue	%	0.8	0.8		0.6	1.3
Average strike price	cents	31 755	28 520	11	19 403	9 465
Average time to maturity	months	20	27		28	16
Operations						
Branches		796	720	11	668	629
Employees		13 069	11 440	14	10 261	9 070
Active clients	'000	8 569	7 269	18	6 244	5 388
ATMs						
Own		1 653	1 236	34	941	744
Partnership		2 371	2 469	(4)	2 477	2 174
Total		4 024	3 705	9	3 418	2 918
Capital expenditure	R'm	1 000	704	42	414	549
Sales						0.0
Loans						
Value of loans advanced	R'm	27 226	24 228	12	19 417	18 214
Number of loans advanced	'000	3 508	3 684	(5)	2 820	3 034
Average loan amount	R	7 761	6 577	18	6 887	6 003
Average loan amount less than or equal to 6 months	R	1 905	1 749	9	1 668	1 597
Average loan amount greater than 6 months	R	26 605	25 229	5	27 441	24 605
Repayments	R'm	32 983	28 689	15	23 787	21 862
Gross loans and advances	R'm	45 135	40 891	10	36 341	33 690
Loans past due (arrears)	R'm	2 855	2 297	24	1 964	2 174
Arrears to gross loans and advances	% %	6.3	5.6	24	5.4	6.5
Arrears rescheduled within 6 months	R'm	1 583	1 542	3	883	750
Arrears and arrears rescheduled within 6 months to	KIII	1 303	1 542	3	003	750
gross loans and advances	%	9.8	9.4		7.8	8.7
Rescheduled from current within 6 months	R'm	1 088	1 818	(40)	1 130	681
Arrears and all rescheduled within 6 months to gross	IXIII	1 000	1 010	(40)	1 100	001
loans and advances	%	12.2	13.8		10.9	10.7
Provision for doubtful debts	R'm	5 930	5 131	16	3 857	3 637
Provision for doubtful debts to gross loans	IXIII	0 300	0 101	10	0 007	0 001
and advances	%	13.1	12.5		10.6	10.8
Arrears coverage ratio	%	208	223		196	167
Arrears and arrears rescheduled within 6 months	70	200	220		100	101
coverage ratio	%	134	134		135	125
Arrears and all rescheduled within 6 months						
coverage ratio	%	107	91		97	101
Total lending income (excluding investment income)	R'm	14 362	12 837	12	11 287	10 307
Total lending income (excluding investment income)						
to average gross loans and advances	%	33.4	33.2		32.2	32.0
Gross loan impairment expense	R'm	6 246	5 255	19	4 616	4 410
Recoveries	R'm	1 125	854	32	602	434
Net loan impairment expense	R'm	5 121	4 401	16	4 014	3 976
Net loan impairment expense to total lending income						
(excluding investment income)	%	35.7	34.3		35.6	38.6
Net loan impairment expense to average gross loans						
and advances	%	11.9	11.4		11.5	12.4
Deposits and bonds						
Wholesale deposits	R'm	7 543	10 154	(26)	11 152	11 848
Retail call savings	R'm	30 117	24 152	25	19 298	14 617
Retail fixed-term savings	R'm	17 922	13 634	31	10 731	8 984

^{*}Loan origination fees previously included in loan fee income was restated and included in interest income of the Income statement.

Chairman's and CEO's Report



Client growth motivated by strong service and brand fundamentals

The Capitec brand has consistently stayed true to its core fundamentals of delivering simplified banking that is both affordable and easy to access through personal service. This resonates with most South Africans, especially in the current tough economic climate, giving them a sense of value and allowing them to feel in control of their money. We received recognition of this when the brand was awarded the top position in the retail banking category at the Sunday Times Top Brands Awards in August 2016.

Substantial Capitec brand acceptance, combined with the expansion of our branch, ATM and digital footprint, has resulted in a record growth of 1 300 000 new clients during the financial year and active clients totalled 8.6 million by year-end (February 2016: 7.3 million).

Primary banking clients (those clients who make regular deposits - mainly salaries) grew in line with total client growth and represent 46% of all active clients. These primary banking clients are less likely to move their banking elsewhere and, on average, do 5 times more transactions than a regular banking client.

Helping clients to help themselves

Our strategy of increasing out-of-branch transacting continued to deliver strong results. Our clients are able to perform more cost efficient transactions through our self-service terminals (SST), cellphone banking app (app), USSD and dual note recyclers (DNR). A DNR is where you can deposit and withdraw money, as well as get a bank statement.

Self-service banking transactions (including app, USSD, card, SSTs, DNRs and internet banking) increased 46% year-on-year to 728 million (February 2016: 499 million), while ATM and branch transactions increased 15% year-on-year to 330 million (February 2016: 287 million). As a direct result, our capacity in the branches improved and we were able to service our clients' needs faster and more efficiently.

Client centricity delivered through service

A core principle in the organisation is to act with the best interest of the client in mind. This emphasises the importance of the client experience, which is driven primarily by consistent client service that meets or exceeds expectations. We opened 76 new branches during the financial year in order to alleviate pressure in high volume areas and to grow the brand footprint in higher-end shopping malls. 301 of the 796 branches trade seven days a week and all branches are open for longer trading hours than the industry norm to ensure a highest level of client accessibility.

We are pleased once more by the recognition the organisation received for client service as the winner of the Ask Afrika Orange Index service awards in 2016, as well as the South African Consumer Satisfaction Index (SACsi) award for the top retail bank. This is however a constant reminder to continue to focus on developing and delivering a world class service experience that helps clients to feel in control of their money.

Earnings up 18%

Earnings increased by 18% to R3.8 billion from R3.2 billion a year ago. Despite weak economic conditions, there was strong year-on-year growth in net transaction fee income. Net lending and investment income increased by 14%, with a 16% increase in net loan impairment expense.

Net transaction fee income increased by 30%

The combination of the growth in our active client base, expansion of our ATM and branch network and the increasing financial awareness of our clients on the best way to bank, has resulted in a 30% year-on-year increase in net transaction (non-lending) fee income.

Our net transaction fee income covered 72% (February 2016: 66%) of our operating expenses and contributed 37% (February 2016: 33%) of our net income.

Operating costs increased by 18%

Operating costs increased by 18% from R4.6 billion in 2016 to R5.4 billion in 2017. The cost-to-income ratio remained at 34% for 2017 (February 2016: 34%). The main reasons for the growth in expenses were, firstly, the continued increase in the number of employees and branches. Employment costs grew year-on-year by 21% or R421 million and the cost of premises grew by 18% or R76 million, as we opened new branches during the year. Secondly, information technology (IT) and security costs increased significantly.

Capital expenditure for the year was R1 billion (February 2016: R704 million). The 42% year-on-year increase was mainly due to the expansion of our ATM and branch network, as well as spend on IT.

Expenditure on our staff, branch and ATM network and IT systems are critical to ensuring we continue to deliver simple and affordable financial services to our clients in an easily accessible way that is accompanied by excellent service.

Graduate placement program, learnerships and bursaries

This year saw the launching of two new further development programs for both current and future employees. Firstly, we introduced a one year learnership program (NQF4 equivalent) for staff in branches and service centres, whereby on completion they receive a certificate in banking. Secondly, we began a graduate placement program with seven new joiners starting this year. In addition, we provided 29 bursaries to second year university students studying finance and IT. These investments ensure our employees and future employees have the opportunity to further educate themselves and that our talent pipeline is well placed for the future growth of the company.

Leadership and staff development is important to us. 1 313 employees attended leadership courses during the financial year, while 3 915 employees participated in specific training courses. This investment in our employees will enable us to perform more effectively as a company and retain our talented leaders.

We also contributed to the Ikusasa Student Financial Aid Programme (ISFAP) during the year. ISFAP is a pilot program, backed by government and the private sector, aimed at addressing the funding challenge of tertiary education of poor and 'missing middle' students.

Gross loans and advances increased by 10%

Gross loans and advances increased by R4.2 billion to R45.1 billion (February 2016: R40.9 billion). The impact of continued tightening of our credit granting criteria and lending to better quality clients was evident, as we granted 176 655 less loans in 2017 than in the previous year (February 2017: 3 507 819; February 2016: 3 684 474).

We granted lower-risk, higher value loans to better quality clients this year. This resulted in the value of new loans growing by 12% from R24.2 billion in 2016 to R27.2 billion in 2017. The average amount for loans less than 6 months and greater than 6 months was R1 905 (February 2016: R1 749) and R26 605 (February 2016: R25 229) respectively.

The average term of the outstanding book decreased from 40 months at February 2016 to 38 months at February 2017.

The launch of the Capitec credit card

The Capitec credit card was launched on 18 September 2016 in the Western Cape branches and nationally on 16 October 2016. So far, it has performed within our risk appetite. Clients earn interest of at least 5.35% per year on a positive balance.

Arrears as a percentage of gross loans and advances increased to 6.3%

The financial stress and economic difficulties experienced by clients during the year were evident. Debt review applications and retrenchment letters received increased by 19% and 15% respectively year-on-year. There was also an increase in clients who received their salaries late or experienced reduced or no inflows.

Management acted decisively to address the deteriorating arrears performance during the year by tightening credit granting to those segments and employers indicating financial stress. Significant changes were also implemented to the rescheduling policies. This ensures the performance and quality of the loan book remains within our risk appetite, while resulting in all rescheduled loans within the last 6 months to decrease year-on-year by 21% to R2.7 billion (February 2016: R3.4 billion).

The economic conditions and changes in rescheduling policies contributed to the 24% year-on-year increase in arrears to R2.9 billion (February 2016: R2.3 billion). Arrears and all rescheduled loans within the last 6 months to gross loans and advances decreased to 12.2% (February 2016: 13.8%), while the arrears and all rescheduled loans within the last 6 months coverage ratio increased to 107% (February 2016: 91%).

Rescheduled accounts

The performance of rescheduled accounts are monitored on a daily basis. Loans that were rescheduled from arrears within the last 6 months increased by 3% year-on-year to R1.6 billion (February 2016: R1.5 billion). We implemented rules to prevent arrears clients from rescheduling for a second or third time if their risk was too high. Loans rescheduled within the last 6 months of the year from a current status decreased by 40% to R1.1 billion (February 2016: R1.8 billion). This was due to policy changes that included preventing low risk clients from rescheduling out of a current status.

Higher provisions were maintained for the rescheduled book in comparison to the remainder of the book.

Provisioning remains conservative and adequate

The total provisions compared to gross loans and advances increased to 13.1% at the end of the 2017 financial year (February 2016: 12.5%).

We provide 8% on current loans, 43% on loans one instalment behind, 81% for two instalments and 92% for three instalments, all statistically calculated. We provide on average 52% on clients that rescheduled any of their loans whilst in arrears within the last 6 months even though they are current in terms of their new agreement. For clients who rescheduled any of their loans whilst current we provide 15%. All provisions are based on the probability of default. All outstanding balances of clients who are 90 days in arrears on any loan are substantially provided for or written off.

The gross loan impairment expense increased by 19% to R6.2 billion (February 2016: R5.3 billion). The table below analyses this increase:

		Change				
R'm	2017	2016	(%)	2015		
Write-offs	5 447	3 981	37	4 395		
Movement in bad debt provision	799	1 274	(37)	221		
Gross Ioan						
impairment expense	6 246	5 255	19	4 616		

A significant portion of the 37% increase in write-offs was as a result of the change in rescheduling policies in the current year and the market deterioration of the prior year, which was provided for in 2016, that materialised in the current year.

The market deterioration of the prior year, which increased the 2016 movement in bad debt provision, did not occur again in the current year. The tightening of the granting criteria and a more stable market resulted in a lower bad debt provision movement during the 2017 financial year.

Our net loan impairment expense to total lending income (excluding investment income) for the year amounted to 35.7% (February 2016: 34.3%). The net loan impairment expense to average gross loans and advances increased from 11.4% in 2016 to 11.9% this year.

A weak employment environment was prevalent during the year. We managed our book meticulously and restricted our lending to specific sectors and employers where we anticipated increased stress. The book continues to perform within our risk appetite.

Recoveries

Recoveries increased by 32% year-on-year from R854 million in 2016 to R1 125 million in 2017. The increase resulted from operational debt recovery improvements, a larger handover book and debt sales.

Continued healthy capital levels

The return on equity for the year was 27% (February 2016: 27%). The total annual dividend increased by 18% from 1 055 cents per share to 1 250 cents per share, in line with the increase in earnings.

Capitec remains well capitalised and is generating sufficient profit to fund growth in the loan book. At February 2017, the capital adequacy ratio was 34%.

Growth of deposits

Retail deposits amounted to R48.0 billion at February 2017, an increase of R10.2 billion on the prior year-end (February 2016: R37.8 billion). Retail deposits continued to grow by more than total loans and advances.

The value of wholesale deposits declined to R7.5 billion (February 2016: R10.2 billion). This is as result of managing our wholesale funding to meet the requirements of the loan book, matched against growth in retail fixed deposits and profit.

Capitec is fully compliant with the Basel 3 liquidity ratios. Our conservative liquidity policies are unchanged.

Credit regulation

The Department of Trade and Industry (DTI) published final Credit Life Insurance Regulations under the National Credit Act on 9 February 2017. The regulations prescribe the cost, cover and benefits of credit life insurance. The regulations will come into effect on 10 August 2017 and will only affect credit agreements concluded on or after the date of implementation. We are working towards implementing the regulations by the effective date.

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

Prospects

We continue to grow our client numbers, branches and ATM network. This will provide us with the opportunity to offer new financial services in the future. New products will continue to have the same foundation of simplicity and affordability as our other products.

Our strategy to increase self-service and digital banking will result in improved capacity and efficiencies in the branches.

On 24 March 2017, we announced our investment in Cream Finance Holding Limited (Creamfinance). Creamfinance is a leading online technology-driven consumer loans company, offering multiple credit products across international markets. We will acquire an interest of 40% for €21 million in three tranches at nine-month intervals, subject to specific agreed performance measures being met. We are excited about this investment and the opportunities it presents for us as we expand our interests beyond the borders of South Africa.

We continue to pursue our strategy to be the best retail bank.

Dividend

The directors declared a final gross dividend of 800 cents per ordinary share on 27 March 2017, bringing the total dividends for the year to 1 250 cents per share. There are 115 626 991 ordinary shares in issue.

On behalf of the board

Riaan Stassen

Chairman

Gerrie Fourie Chief executive officer

Stellenbosch

capitec people bank better to live better



Our business is about people ... and numbers

Numbers are more than just a result of past performance and current financial position. Managing our numbers ensures we deliver affordable, simple and transparent solutions to

The economy of our current operating environment has experienced increased inflation, rising unemployment and pedestrian growth. This has resulted in our clients experiencing increased uncertainty and price pressure.

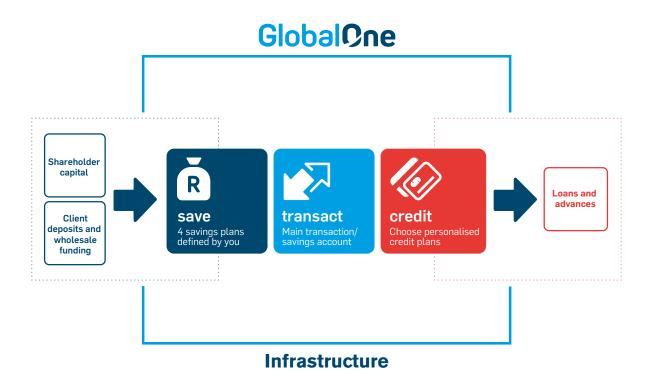
It is with this backdrop and with our single solution (Global One), comprising of the three integral parts of our business (save, transact and credit) in mind, that the following key objectives remain our focus:

- · Prudent approach to lending.
- · Continuous assessment and enhancement of our credit granting model.
- · Conservative and adequate levels of provisioning.
- · Optimal returns on clients' deposits.
- · Simple, transparent and affordable product offerings that give our clients full control and support their daily financial activities through our digital banking platform.
- · Diversification of income streams.
- · Consistent improvement of personal service and efficiency.
- Disciplined cost management.
- Development of calculated investment in our people and infrastructure.

We are excited about the innovation across all three integral parts of our business and have diversified and expanded our product offering with the launch of a credit card during the past financial year.

We recently acquired an interest in Cream Finance Holding Limited (Creamfinance), and crossed our South African borders. We believe this working relationship is aligned with our vision and will allow us to deliver cutting edge financial solutions to people across the globe.

We report below on the financial results for the year in terms of our Global One solution and business model:



Shareholder capital

		2017	2016
ROE	%	27	27
HEPS	cents	3 281	2 787
Total dividends per share	cents	1 250	1 055
CAR	%	34	35

Earnings up 18%

Headline earnings per share (HEPS) increased by 18% from 2 787 cents in 2016 to 3 281 cents per share in 2017 and we generated a return on our shareholder equity of 27% for the year consistent with the prior year. Our objective is to retain a return on equity between 22% and 27% over the next five years.

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

	Since listing in 2002 (%)	Last 10 years (%)	Last 5 years (%)	Last 3 years (%)	2016
Headline earnings	34	37	29	24	18
· ·	04	01	23	24	10
Headline earnings					
per share	28	31	24	23	18
Dividend	29	32	24	24	18
Share price	54	35	31	58	53

Retained earnings for future growth

We retain earnings to achieve the following growth objectives:

- · Diversification of our product range.
- · Service delivery to clients through the increase of our branch network, ATMs and DNRs.
- · Continuous innovation of our simple, transparent and affordable digital banking platform.
- Investment in our infrastructure (staff and information technology).
- · Expansion into other markets.

We acquired an interest in Creamfinance, a globally expanding online lending group, on 24 March 2017.

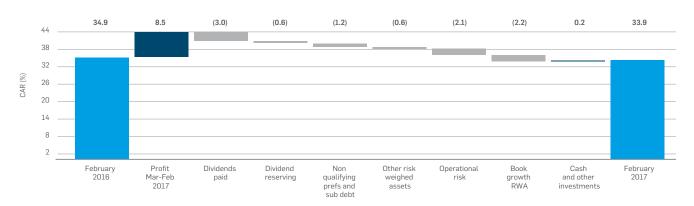
Creamfinance is registered in Cyprus and provides online consumer loan products in a number of countries, including Poland, Latvia, Georgia, the Czech Republic, Mexico and Denmark. Its business model, sophisticated technology and advanced credit scoring methods align Creamfinance with our business model and supports our long-term digital strategy. We will acquire an interest of 40% in Creamfinance for €21 million. The investment will be done in three tranches at nine-month intervals, subject to specific agreed performance measures being met. The first tranche of €6.7 million will give Capitec an interest of 19.43% in Creamfinance. The second tranche will increase our shareholding to 31.25% and will amount to €7.1 million. The third tranche of €7.2 million will increase Capitec's shareholding to 40%.

Existing shareholders of Creamfinance have the option to sell a further 9% shareholding in Creamfinance to us at a maximum cost of €5.4 million, which would increase our interest to 49%. This option can be exercised at the time of the second or third investment tranches, but remains subject to Creamfinance meeting the investment criteria for the relevant tranches.

It is not our intention to control or manage the daily operations of Creamfinance. We believe our values and objectives are aligned and we look forward to a successful working relationship.

We remain a growth business. In order to achieve significant milestones we set for ourselves, we retained a dividend cover of 2.6 with total dividends paid of 1 250 cents in 2017 (2016: 1 055 cents). The dividend cover has been retained at this level to provide the opportunity for future levels of growth.

ANNUAL CHANGE IN CAR (%)



Capital remains strong

We remain well capitalised with a capital adequacy ratio (CAR) of 33.9% (2016: 34.9%) and a core equity ratio of 30.8% (2016: 30.1%). The bank has sufficient capital to meet its current growth requirements. During the year we redeemed R23 million non-qualifying perpetual preference shares and an amount of R250 million subordinated debt. These preference shares and subordinated debt instruments are subject to the applicable phase-out rules in terms of Basel 3.

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

Under the current IAS17 Leases, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (on income statement). IFRS16 will require us to recognise a lease liability reflecting future lease

payments and a "right-of-use asset" for all our applicable lease contracts.

Based on current capital regulations, we calculate that this amendment will result in an estimated reduction of 1% of our CAR percentage. We continuously manage our capital to consider the impact of this change.

Client deposits and wholesale funding

	2017	2016
Debt-to-equity	3.6:1	3.6:1
Retail call savings	30 117	24 152
Retail fixed-term savings R'm	17 922	13 634
Wholesale deposits R'm	7 543	10 154
Net stable funding ratio (NSFR) %	187	145
Liquidity coverage ratio (LCR) %	1 152	1 040

Funding

The debt-to-equity ratio remained constant at 3.6:1 (2016: 3.6:1). Total deposits increased by R7.6 billion (2016: R6.8 billion) to R55.6 billion in 2017. Retail deposits increased by R10.2 billion to R48.0 billion, and wholesale funding was deliberately managed lower due to the strong profit and retail fixed deposit growth in comparison to the loan book growth which declined by R2.7 billion to R7.5 billion.

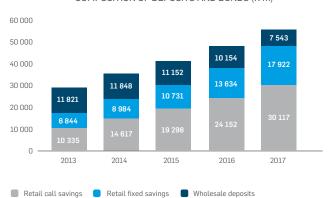
Retail call savings grew 25% to R30.1 billion due to strong client growth of 18% during 2017. Call depositors earn interest of at least 5.35% from the first cent invested.

Retail fixed-term savings grew 31% to R17.9 billion. The fixed-term funding mix is now 70% (2016: 57%). This is due to the sustained increase of clients' trust in our brand. The weighted average maturity of retail fixed funding was 18.4 months at the end of February 2017 (2016: 17.2 months).

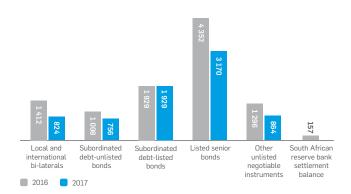
The value of wholesale deposits declined by 26% to R7.5 billion in 2017, as instruments matured and were only partially refinanced. We auctioned R750 million of bonds in May 2016 at an auction that was 2.9 times oversubscribed, indicating the strong support from the market. The average term of wholesale funding at the end of February 2017 was 25.0 months (2016: 25.6 months) based on the remaining term of this funding; at inception the average term was 65 months. Our intention remains to always have a presence in the debt capital markets.

As part of the proactive monitoring of financial statements initiative, the JSE advised issuers that classification of an item within the statement of cash flows, i.e. whether it relates to operating, financing, or investing activities, is equally important to users as the final net cash position. For this purpose, during the past year we have split the disclosure of our deposits and wholesale funding to reclassify the movement of bonds (subordinated debt and listed senior bonds) under financing activities and not under operating cash flows as previously presented. Wholesale funding remains to be utilised for the loan book and part of our operations. We provide further clarity of the reclassification in our cash flow statement and note on cash flows from operating activities as disclosed in our annual financial statements.

COMPOSITION OF DEPOSITS AND BONDS (R'm)



WHOLESALE FUNDING BY NATURE (R'm)



At February 2017, the bank had R137 million unhedged wholesale floating rate funding. The interest rate risk at bank level remains low with a 2% shock to base rates resulting in a R1.7 million (2016: R18.3 million) post-taxation movement in profit.

Liquidity

The approach to liquidity risk remains conservative with no changes to the liquidity policy over the past financial year. The management of liquidity takes preference over the optimisation of profits.

This conservative approach results in the inherent compliance with the Basel 3 LCR and the NSFR. Compliance with the LCR was required from 1 January 2015, with a minimum required ratio of 60%, increasing to 100% by 2019. Our LCR exceeded these minimums with a ratio of 1 152% (2016: 1 040%). Compliance with a NSFR of 100% is required from 2018 onwards. Our NSFR is 187% (2016: 145%).

To reduce liquidity risk, call deposits are only utilised in the loan book to a limited extent. They also fund treasury bills to meet prudential requirements as well as operational cash requirements such as cash in the ATM network. The funds surplus to operational requirements total R26.5 billion (2016: R21.4 billion) and are invested in low risk, liquid, interest-bearing instruments. These assets provide a positive return.

The weighted average remaining maturity of the investment portfolio at 28 February 2017 was 99 days (29 February 2016: 91 days). None of the longer-term investments have an original contractual maturity of longer than one year which assists in the management of interest rate risk.

Credit rating

Capitec Bank is rated by S&P Global Ratings (S&P). They affirmed these ratings on 18 October 2016:

Global - "BB+" long-term rating

- "B" short-term rating

National - "zaA" long-term rating

- "zaA-2" short-term rating

The global scale long-term ratings carry a negative outlook as a direct result of S&P's view on the sovereign's ratings. In terms of S&P's outlook on our stand-alone credit profile, we believe that we have met all their requirements on capital, risk and funding to ensure that the ratings remains unchanged.

Transact

		2017	2016
Net transaction fee income	R'm	3 923	3 020
Net transaction fee to net income	%	37	33
Net transaction fee income to operating expenses	%	72	66
Active clients	millions	8.6	7.3
Branches		796	720
ATMs			
Own		1 128	967
Partnership		2 371	2 469
DNRs (Dual note recycler)		525	269

During the course of the year, our active client base has grown by 18% to 8.6 million clients.

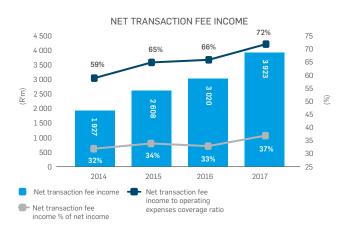
Our net transaction fee income increased with 30% in the past year compared to 16% in 2016. This was as a result of:

- · The expansion of our branch network to 796 branches (2016: 720);
- · Expanding our device network to 1128 ATMs and 525 DNRs; and
- 70% growth in the income earned from our electronic banking channels (internet, USSD and the cellphone banking app).

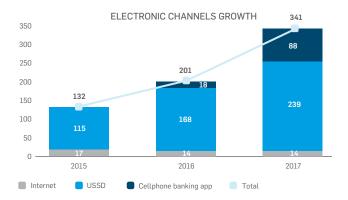
The launch of our self-help terminals in branches during the past year, as well as the continued education of our clients on the best way to bank, supported this growth.

The net transaction fee income to operating cost coverage ratio increased to 72% (2016: 66%), while net transaction fee income as a percentage of net income improved to 37% (2016: 33%).

We aim to cover operating costs 100% with net transaction fee income by 2020.



Our cellphone banking app has seen year-on-year growth due to the continued improvement of both its functionality and migration of clients from the USSD channel. Since March 2016, we have registered an additional 1 million clients.



The growth in clients utilising electronic channels over traditional branches for their day-to-day transactions has helped to create capacity in our branches, allowing staff to concentrate on serving clients that are required to enter the branch for specific needs or for clients that might not have, nor want, access to banking remotely with a device.

Loans and advances

		2017	2016
Gross loans and advances	R'm	45 135	40 891
Net lending and investment income	R'm	11 877	10 446
Average loan amount	R	7 761	6 577
Average loan amount less than or equal to 6 months	R	1 905	1 749
Average loan amount greater than 6 months	R	26 605	25 229
Loans past due (arrears)	R'm	2 855	2 297
Arrears to gross loans and advances	%	6.3	5.6
Arrears rescheduled within 6 months	R'm	1 583	1 542
Arrears and arrears rescheduled within 6 months to gross loan and advances	%	9.8	9.4
Rescheduled from current within 6 months	R'm	1 088	1 818
Arrears and all rescheduled within 6 months to gross loans and advances	%	12.2	13.8
Provision for doubtful debts	R'm	5 930	5 131
Provision for doubtful debts to gross loans and advances	%	13.1	12.5
Arrears coverage ratio	%	208	223
Arrears and arrears rescheduled within 6 months coverage ratio	%	134	134
Arrears and all rescheduled within 6 months coverage ratio	%	107	91

Loans advanced (sales)

Gross loans and advances are determined by our unique credit granting model. We review and adjust our model continuously so that the credit offer meets the regulatory requirements and trends in the market, while performing within our credit risk appetite. The precision and constant refinement of our granting process achieved loan sales of R27.2 billion (2016: R24.2 billion) for the year. The value of the loan sales increased with 12% (2016: 25%) and the number of loans decreased by 5% (2016: increase of 31%).

The source of income, affordability criteria and assessment of client behaviour, along with model amendments to accommodate the separate credit insurance pricing from 6 May 2016, are some of the key drivers of our granting model we focused on this past year.

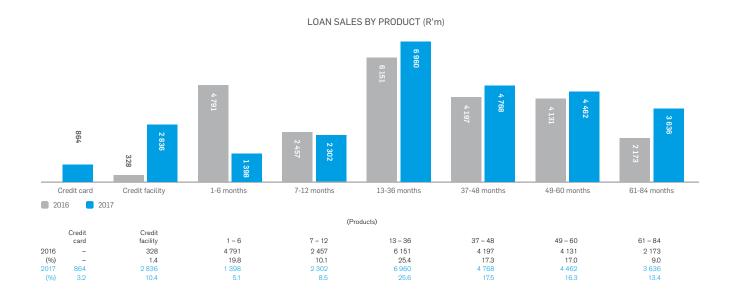
We use both payslips and bank statements to verify our clients' income. This has served us well as we can establish the client's disposable income, especially where a portion of their income is inconsistent or variable in nature. We apply three parallel disposable income calculations i.e. the NCA affordability calculation, a Capitec client disposable income calculation and the client's own calculation, and then apply the most stringent of the three.

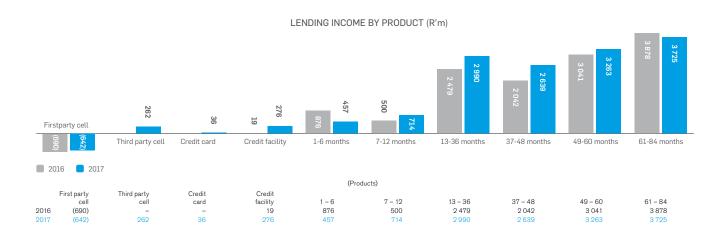
At the end of February 2017, the weighted average outstanding term of the loan book was 38 months (2016: 40 months). The average loan size granted increased from R6 577 to R7 761 in 2017 as a result of the increase in long-term loans in the 61 to 84 months category. The total number of loans granted during the year decreased from 3.7 million to 3.5 million.

Long-term loans in the 61 to 84 month category increased 67% compared to a decrease of 43% in 2016. This is aligned with our credit risk appetite to focus on granting longer-term loans where source of income and client affordability criteria are met. Due to the uncertainty and external price pressure our clients currently face, we carefully granted shorter-term loans.

A further contributor to the decrease in shorter-term loans (1-6 months) was the discontinuation of the multi loan, and the introduction of the credit facility during the previous financial year.

Our credit card was launched on 18 September 2016 in the Western Cape branches and nationally on 16 October 2016. It has performed well and is within our risk appetite.





Lending income

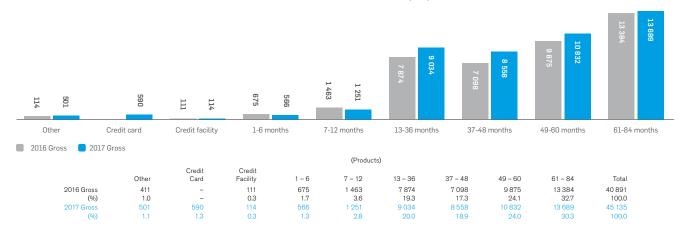
Interest rate limits and fees for credit agreements were changed on 6 May 2016. Prior to this date, we charged our clients an all-inclusive interest rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-6 May 2016 loan book in this manner through a first party cell captive structure.

Following these changes, from 6 May 2016 all new applicable loans granted require our clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment and death; there is no claim against their deceased estates for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third party cell captive structure. The all-inclusive charge to our client has not increased and our clients were not impacted by the implementation of these changes.

The thorough loan application process within our branches and call centres utilises a significant amount of resources that we specifically cost. We manage each specific cost associated with the loan application process to ensure we are delivering on our objectives to serve our clients appropriately and efficiently.

The costs incurred for every loan application is calculated and recovered through an initiation fee charged to a client which has been successful in his/her application. In terms of common practice, we charge the entire cost related to the loan application upfront when incurred, but in terms of our accounting policy and prudency, the fee to recover this cost is deferred and amortised over the term of the loan on an effective interest rate basis. This loan origination fee was always recognised, presented and disclosed as part of loan fee income in the past.

GROSS LOAN BOOK BY PRODUCT (R'm)



NET 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 terms of updated interpretation of appropriate IFRS and IAS standards, we have reclassified initiation fee income, and included this portion of fees relating to the origination of the loan as part of interest income. This amortised portion of initiation fees is included in the determination of the effective interest rate (EIR) of the loan and reclassified to the interest income line on our income statement. The unamortised portion of initiation fees not recognised on our income statement is included in our net loans and advances. We provide further clarity of this reclassification in our income statement and note relating to net lending and investment income, as disclosed in our annual financial statements.

The increase in interest income on loans and advances for the year in comparison to the size of the loan book was less than the prior year. This was due to the amended limitations on interest rate caps effected by the NCR on 6 May 2016. Interest income on loans and advances as a percentage of the gross loan book decreased to 29% (2016: 30%) in 2017.

Loan fee income (monthly service fees and net insurance income) increased by 87% to R1.1 billion in 2017 from

R0.6 million in 2016, due to loan sales growth and the change in price structure from 6 May 2016 on the accrual of net insurance income on the third party cell captive structure.

Credit Life Insurance Regulations were published on 9 February 2017 that will come into effect on 10 August 2017. The limits in relation to these regulations to insure a credit facility is R4.50 per R1 000 of the average utilisation of the credit facility limit in the billing cycle and R4.50 per R1 000 of the deferred amount of unsecured credit. We are working towards implementing the regulations by the effective date.

Arrears, rescheduling and provision for doubtful debts

We manage the health of our existing loan book continuously. We match our risk appetite on the loans granted to the appropriate level of arrears, and loans rescheduled with the appropriate level of doubtful debt provision.

Arrears increased in the current year to 6.3% in 2017 compared to 5.6% in 2016 of our gross loan book.

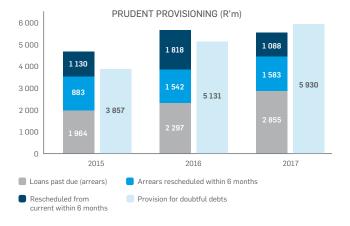
This increase in arrears is the result of granting strategies aimed at optimising our risk appetite. Our provision for doubtful debts to our gross loan book increased in line with the increase in arrears.

Arrears loan balances rescheduled within the last 6 months has increased 3% to R1.6 billion (2016: R1.5 billion) in 2017 and rescheduled loans from current within the last 6 months has decreased from R1.8 billion in 2016 to R1.1 billion in 2017.

Part of the increase in arrears is due to the more stringent rule changes applied to the rescheduling policy during the current vear. The size of the total non-rehabilitated rescheduled book relative to gross loans and advances decreased to 6% from 8% in 2016. These changes include preventing certain low risk clients from rescheduling out of a current state, as well as to prevent arrears clients from rescheduling for a second or third time if their related risk is too high.

The overall result is a reduction in the ratio of arrears and all rescheduled within the last 6 months relative to gross loans and advances from 14% in 2016 to 12% in 2017. The most notable contributor to the overall reduction was the decrease in rescheduling from current within the last 6 months.

When comparing our level of doubtful debt provision to the sum of all loans in arrears, rescheduled from arrears in the last 6 months and rescheduled from current in the last 6 months, it provides evidence of our continued prudence in provisioning.



Our bad and doubtful debts provision is carefully monitored. Our methodology and assumptions used to assess objective evidence of impairment for each group of financial assets with similar characteristics are aligned with our risk appetite, credit granting strategy and analyses of data of events that impact our assets estimated future cash flows.

Our provision for the current year increased with 16% to R5.9 billion (2016: R5.1 billion) in 2017. As a percentage of gross loans and advances, the total provision increased to 13.1% from 12.5% last year, and is mainly derived from the alignment with the increased percentage of arrears to total gross loans and advances and our prudent approach of appropriately supplementing our model provision with events that have occurred in the past that will realise in the near future.

The IASB has issued IFRS 9 Financial Instruments, which is the replacement of IAS39 Financial Instruments: Recognition and Measurement, and is effective for our group's financial year commencing 1 March 2018. The IASB developed a new expected credit loss (ECL) impairment model.

The IFRS 9's ECL will represent an impact to the group's financial results, risk metrics and regulatory capital requirements. Economic capital, the group's funding of liquidity and stressed earnings are also expected to be influenced. We have performed a comparative analysis of our current provision methodology to IFRS 9's ECL. Under the new ECL, our rescheduled loan book provision that considers a 12 month forward looking period extends to lifetime, and the current loan book that applies an incurred but not reported (IBNR) emergence period of three months extends to 12 months.

We actively monitor the change in this IFRS development and ensure our provisioning methodology is aligned. We calculate this impact on a monthly basis and as at 28 February 2017, we estimate an increase in our provisions of R750 million that will be recognised in the group's opening retained earnings from 1 March 2018, to be reported for the year ended 28 February 2019.

Impairment expense

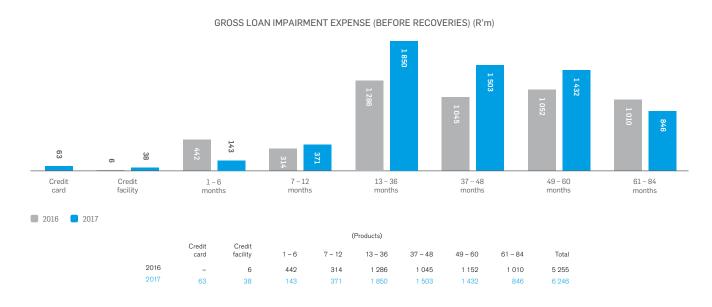
The net loan impairment expense was R5.1 billion (2016: R4.4 billion) and is 12% (2016: 10%) of average gross loans and advances. The impairment charge comprises bad debts written off, the movement in the provision for doubtful debts and bad debts recovered.

The increase in bad debts written off to R5.4 billion for the current year compared to R4.0 billion in 2016 is aligned to the increase in arrears and the change in our rescheduling policy. The provision movement for the year was R0.8 billion compared to R1.3 billion in 2016. Our bad debts recovered for the current year was R1.1 billion in 2017 from R0.9 billion in 2016 and we constantly innovate and seek improvement and efficiencies in our collection environment.

R'm	2017	2016	2015	2014	2013
Bad debts written off Movement in impairment allowance	5 447 799	3 981 1 274	4 396 220	3 496 914	1 755 1 178
Gross Ioan impairment expense Bad debts recovered	6 246 (1 125)	5 255 (854)	4 616 (602)	4 410 (434)	2 933 (273)
Net impairment charge	5 121	4 401	4 014	3 976	2 660

A significant portion of the 37% increase in write-offs was as a result of the change in rescheduling policies in the current year and the market deterioration of the prior, which was provided for in 2016, that materialised in the current year. The market deterioration of the prior, which increased the 2016 movement in bad debt provision, did not occur again in the current year. The tightening of the granting criteria and a more stable market resulted in a lower bad debt provision movement during the 2017 financial year.

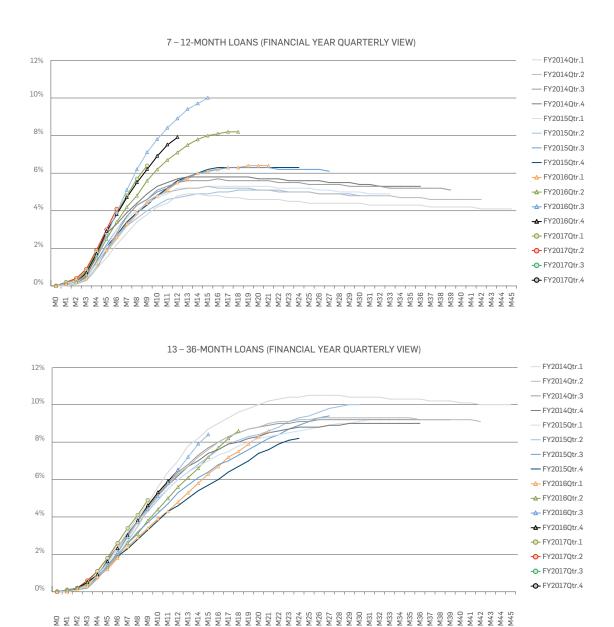
The loan impairment expense is shown per product category below, and is aligned to our risk appetite and loans granted for the year in these categories.

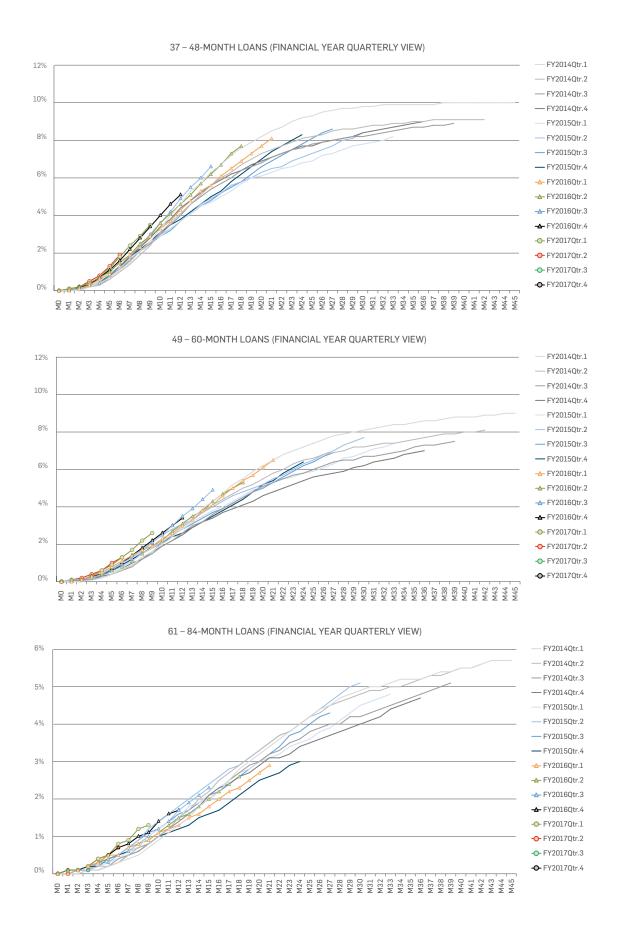


Vintage graphs

We grant credit on risk-based pricing and price for the probability that a client will default on payments. This is expressed as a probability that a client would be 90 days or more in arrears (written-off). This priced for probability of default is referred to as granted or booked probability of default. Any change in this probability in the loan book portfolio is priced to deliver on our required ROE targets.

The vintage graphs below express the balance at risk at time of write-off as a percentage of the total original planned instalments for the loans granted in a given quarter. The vintages reflect our expectation of default and are within our risk appetite.





Infrastructure

		2017	2016
Cost-to-income ratio	%	34	34
Number of employees		13 069	11 440
Operating expenditure	R'm	5 439	4 591
Employment costs	R'm	2 409	1 988
Premises expenditure	R'm	498	421
Depreciation and amortisation	R'm	537	403
Taxation	R'm	1 434	1 244

To achieve constant growth, optimally serve our clients and improve their financial lives requires calculated investment in our infrastructure. We retained a cost-to-income ratio of 34% for the year with the goal to retain the ratio between 30% and the current level over the next five years.

We have hired 1 629 more staff in 2017, an increase of 14% from the prior year, to bring our total staff compliment to 13 069 (2016: 11 440). Employment costs grew year-on-year by 21%. We continue to be a significant contributor to job creation in South Africa.

Our information technology (IT) and development allows us to be more efficient and meet the changing needs of our clients. Innovation is not only key to remaining relevant, but also having the foresight to understand and adapt to the needs of our clients in the future.

The strategic location of our branches is paramount. It provides the platform to best serve our clients. Our branches have increased by 11% to 796. Cost relating to our premises was R498 million (2016: R421 million) for the current year.

Capital expenditure for the year was R1 billion (2016: R704 million). The 42% year-on-year increase was predominantly due to spend on IT and the branch and ATM network. These have been the primary drivers of the 33% increase in depreciation and amortisation during 2017 to R537 million (2016: R403 million).

Taxation expense increased with 15% from R1.2 billion in 2016 to R1.4 billion in 2017. The significant investment in learnership programmes for our staff during the year provided an additional deduction from our income in terms of the Income Tax Act relating to learnership agreements. These learnership programmes encourage skills development and job creation.

Regulation

There is constant improvement and change in the regulatory environment. We proactively contribute and manage our regulatory environment, taking care of the interests of our clients, and managing the funds our clients invested in us responsibly.

The table below summarises the status of these developments and their impact on our clients and our business:

Development	Impact		
Development of a new early debit order collections environment.	Capitec is closely involved in the working groups that are developing a new more secure debit order collection system, called Authenticated Collections/DebiCheck, which aims to replace the existing NAEDO system by 2019. The impact of any changes will be addressed in our processes.		
Review of the various methods used for calculating the capital requirements for credit risk.	Capitec is involved in the working groups that are part of assessing these developments and any changes will be		
Introduction of a method for holding capital on interest rate risk positions.	addressed in our processes.		
SARS issued a ruling to the banks relating to the tax treatment of allowances of doubtful debts on 17 February 2012. In the ruling, SARS stated that the Commissioner will exercise his discretion of such treatment	Shortly after the ruling was published, the banks individually approached SARS to request confirmation of the allowance amount that they may claim with respect to their doubtful debts provision.		
and that each taxpayer may individually request the Commissioner to confirm the treatment of their allowance for doubtful debts.	We claim allowances for doubtful debts as previously assessed by SARS for all tax years of assessment.		
	We continue to work alongside SARS to finalise our directive.		
Review of limitations on fees and interest rates.	The DTI published the final regulations for the limitation of fees and interest rates which became effective from 6 May 2016.		
The final Credit Life Insurance Regulations were published on 9 February 2017. It will come into effect on 10 August 2017.	The regulations will only affect credit agreements concluded on or after the date of implementation. We are working towards implementing the regulations by the effective date.		
	Development of a new early debit order collections environment. Review of the various methods used for calculating the capital requirements for credit risk. Introduction of a method for holding capital on interest rate risk positions. SARS issued a ruling to the banks relating to the tax treatment of allowances of doubtful debts on 17 February 2012. In the ruling, SARS stated that the Commissioner will exercise his discretion of such treatment and that each taxpayer may individually request the Commissioner to confirm the treatment of their allowance for doubtful debts. Review of limitations on fees and interest rates.		

We have completed and signed off our budget for 2018, as well as the objectives we have set ourselves to achieve by 2020. We believe the business is well-positioned to achieve these targets and are excited for the new developments in the coming months. Personal client service, affordability, accessibility, simplicity and transparency remain our core values. Retaining the discipline to focus on improving our clients' financial lives and becoming the best retail bank in the world remains our vision.

André du Plessis Chief financial officer

Operating Environment

One card for all your banking

Simplify not just your money, but your entire life



Why we are in business

Consumers face financial challenges every day due to a tough economy and rising costs. In addition they have to choose between financial solutions that are not only complex but also expensive. At Capitec, we believe that banking is about people. It is about understanding the needs of people, and finding simple and affordable solutions to help them take control of their money.

We realise that banking is not people's first priority, and we don't believe that banking should cost our clients more time and money. In fact, it should save them time and money and enable them to spend it on the things that matter to them most. Our vision is therefore to help our clients manage their financial lives better, so that they may live better. We believe that it is this vision that sets us apart and that will help us to become the best retail bank in the world.

How we operate

Our core values are simplicity, accessibility, affordability and personal service.

Simplicity is at the heart of our positioning in the market and the essence of how Capitec operates. Everything we do is done with the client in mind, and delivered in a way that makes it simple and transparent. This is applicable to the way we structure our product offering, in our flat, fixed pricing structure, our advanced service processes and even in the way we communicate with our clients. A simple solution, however, often requires much more complicated systems and processes to support it. This may initially cost more for development and planning, but the benefit is a product and pricing offer that is well differentiated, transparent, easy for our consultants to deliver and easy for our clients to use. Simplicity is the ultimate sophistication.

Accessibility means ensuring that our clients can access their Global One solution from anywhere, at any time and in any way, to place them in control of their banking. We've opened our 796 branches primarily in malls and shopping centres next to the anchor retail tenant, instead of the banking halls, making it easier to find. Our advanced cashless branch systems allow us to open up the entrance of our branches without the need for extreme security, and our electronic queue management system means clients can await their turn at the branch without the need to stand in a queue. We trade for longer hours on weekdays and over 300 branches, mainly in shopping centres, are open seven days a week. We also offer the complete Global One solution available on internet banking, USSD and our cellphone banking app, which is now

used by over 1 million clients every month. Furthermore, we answer client service queries on social media and at our client care centre 24 hours a day, seven days a week.

Affordability means ensuring that our clients always get value for money. We understand the competitive landscape very well, and ensure that the fees on our Global One solution are among the lowest in the market. Our pricing on remote banking (cellphone, internet or card purchases) have not been increased for the last three years, which motivates clients to move away from using expensive channels to transact, like branches and ATMs. These electronic channels save them time and money while also increasing the capacity in our branches to serve new clients, and assist those with more complex banking needs.

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

Personal service is delivered through our branch and client care network of over 11 000 service consultants. Our consultants are employed from the areas in which their branch operates, since they are familiar with the community and can serve their clients in their home language. They are then sent through a best-in-class induction and training programme which includes two weeks at the Capitec Firm Foundations training centre in Stellenbosch. We are proud of the fact that so many young people who join us have not held formal jobs before and regard us as an attractive start to their career path. We are also inspired by the growth and development of some of these employees who have progressed to senior management roles.

Clients are served alongside the consultant, which allows them to see what the consultants do on our banking system. This empowers them to choose the options they want, and to feel in control of the entire process. Our branch managers are located at the front of the branch instead of an office at the back to ensure that they are visible and accessible. As the champions of client service, they also personally welcome new clients when a new account is opened.

Client centric values, energy and ownership are entrenched in the Capitec DNA, and we truly believe that it's this approach to personal service that ensures long-lasting relationships with our clients, and gives us the competitive edge.

What we offer – a unique money management solution

We offer one single solution to daily money management called Global One for a monthly fee of R5.50. Every client gets:

- · A transaction account which earns the highest interest on positive balances and charges low, flat transaction fees;
- · Four additional savings plans that the client can personalise by name and fix in order to earn more interest; and
- · Quick and easy access to credit within minutes when they need it in the form of a term loan, a credit facility or a credit card.

Our Remote Banking channels offer clients free access to their money, with one fixed fee per transaction applicable when doing payments. Inter-account transfers and card purchases carry no fees, and clients can get access to cash at tills for R1.50, our own ATMs for R6.00, or any other bank's ATM for R8.50.

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

Our measure of success

We measure our success by the number of clients who join us and place their trust in us as their primary bank to deposit their income.

We encourage clients to make use of all our products and services and to maintain a healthy positive cash flow on a long-term basis. We also strive to give clients adequate insight to choose the best way to bank and run their financial lives. We believe this creates the best long-term relationship with our clients and also ensures the long-term, stable income stream that a successful bank requires.



We are humbled by the growing level of acceptance of our brand and our offer in the market and are proud of the fact that 100 000 new clients join us every month on a continuous basis. We now have 8.6 million clients of which 3.9 million are primary banking clients. This growth rate has made us the fastest growing bank in the country over the past four years. We do, however, recognise that this vote of confidence by our clients means we have a responsibility to continue to deliver on our promise of a simple, affordable solution to money management that is easy to access and delivered at a high level of efficiency and service quality.

We now have 8.6 million clients of which 3.9 million are primary banking clients.

Unique delivery of our solution

We believe differentiating our functional offer is only half the formula. We've also differentiated our service support process to both better inform clients and clearly deliver them options from which to choose. The service process therefore provides the ability to compare alternatives within the three key need definitions (Save, Transact and Credit) so that clients can make an informed choice.

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

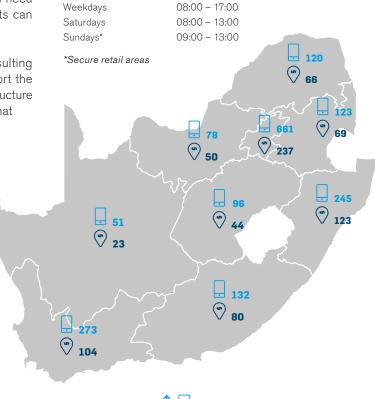
Our approach to nurture client relationships is supported by the strategy to provide smaller informal branches with minimal administrative and security requirements. This has a dual effect as it's not only attractive to clients, but also allows us to make our processes system-driven with no paperwork.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

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

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

The combination of a simplified product offer and a simplified service process means we can deliver on client needs at an efficiency level well above the norm. This in turn means we can remain aggressive in our pricing strategy, enabling us to be a price leader in the industry.

Branch hours



Capitec branches

Cellphone banking app users ('000)

Operating environment

Global economy

Immediately after the United States Federal Reserve increased the Fed funds rate by 25bps in December 2016, there was an expectation that three to four further increases will occur in 2017. This has since reduced to some extend. Furthermore, the IMF has forecasted world GDP to be 3.4% in 2017 and whilst this is an improvement on 2016, it does not engender significant market confidence that world growth will filter to South Africa in any meaningful way.

South African economy

	2016	2017	2018
		forecast	forecast
GDP growth (%)	0.5	1.3	2.0
CPI (%)	6.4	6.4	5.7
Oil (\$/barrel)	44	58	58

Source: National Treasury national budget overview document.

Inflation outlook

As per the table above, consumer price inflation is expected to moderate in 2017 to be within the SARB's target range of 3% to 6%. However, currency volatility as well as forecast risk associated with an uncertain global political and economic environment can have a material impact on the expected economic outcomes.

GDP growth

The continued weak outlook for economic growth is not conducive to job creation, which in the current financial year translated into job losses due to retrenchments and companies closing down. Whilst GDP growth is expected to increase in the 2017 calendar year, this is not expected to materially alter the number of jobs created.

Base interest rates

Due to the lowered expectations of inflation in 2017, there is no significant movement in base interest rates forecasted for the next year.

Currency expectation

The Rand will always remain a volatile currency and can be affected significantly by external political factors. The risk of these factors has heightened in the past year and there is more uncertainty than there was a year ago. Naturally, major swings in the currency, should they occur on a persistent basis, will affect inflation and thus interest rates.

Impact of the economy on our clients

Lending clients are protected from the direct impact of increases in interest rates as their Capitec loans are at fixed rates. A few of them have exposure to external floating rate debt. Changes in transport, energy and food inflation have a greater impact on their ability to repay loans when compared to movements in interest rates. A logical driver on the future performance of the loan book is unemployment and the lack of job creation. Stats SA indicates that at the end of Quarter 4 2016, the official unemployment rate was 26.5%, an increase of 2.0% from Quarter 4 2015, with the expanded definition at 35.6%. The likelihood for either of these rates to reduce in a significant manner in the next 12 months is low.

The weaker economic environment is a positive factor in sourcing transactional banking clients who are seeking more affordable solutions to their day-to-day banking requirements.

Impact of economic factors on Capitec

The bank is well-hedged against movements in interest rates (refer to Note 29 interest rate risk). Changes in base rates will not have a material impact on the bank's profitability. Uncertainty regarding the future value of the currency will have an impact on the cost of some goods and services that are not sourced locally. The bank has no unhedged currency exposure on debt raised.

The South African unsecured credit market

2016 at a glance

The South African consumer was faced with many challenges in 2016, with inflation and unemployment impacting severely on households' disposable income. Consumer confidence remained low throughout the year.

Household debt to disposable income decreased from 78.3% in the third quarter of 2015 to 75.1% in the third quarter of 2016 (Source: SARB Quarterly Bulletin December 2016).

This correlates to the NCR Consumer Credit Market Report, which showed an overall reduction of 3% in credit granted for the first three quarters of 2016 compared to the first three quarters of 2015. Mortgages, secured finance and credit facilities were the main drivers of the reduction while unsecured credit grew by 12% and development credit by 90%, albeit from a low base.

The higher income group i.e. above R15 000 per month, drove the industry growth in unsecured credit granting, while credit to consumers earning less than R10 000 per month reduced by 2%.

The weak economy also required Capitec to review its credit granting strategy and we responded by reducing our offer to consumers who were most vulnerable whilst ensuring that our offer remained competitive. We experienced a surge in new credit applications, whilst our decline rate increased. New credit applicants in the higher income space also increased.

Looking ahead

Capitec will continue to monitor the economic landscape and respond in our granting strategy where deemed necessary.

We expect the subject of debt relief for over-indebted consumers to gain further momentum and remain committed to applying existing debt relief measures to assist our clients based on their unique circumstances.

Trends in the South African credit market

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

	2014	To 3rd quarter 2015	2015	To 3rd quarter 2016	Trend 2014/ 2013	Trend 2015/ 2014	Trend Q3 2015/ Q3 2014	Trend Q3 2016/ Q3 2015
Agreement type	R'm	R'm	R'm	R'm	(%)	(%)	(%)	(%)
Mortgages	137 194	107 422	147 060	105 563	10	7	6	(2)
Secured credit	149 156	113 096	154 869	107 686	(3)	4	5	(5)
Credit facilities	67 052	51 645	65 612	38 934	(4)	(2)	4	(25)
Unsecured credit	75 078	55 502	77 969	62 129	(14)	4	(2)	12
Short-term	6 609	10 538	15 031	9 263	14	127	168	(12)
Developmental credit	5 534	5 574	7 383	10 589	(26)	33	20	90
Total credit granted for the year	440 623	343 777	467 924	334 164	(2)	6	6	(3)
Total Rand value of unsecured credit granted by size								
of agreements								
R0K – R3K	2 078	1 405	1 782	748	1	(14)	(20)	(47)
R3.1K – R5K	1 935	1 344	1 840	994	(10)	(5)	(12)	(26)
R5.1K – R8K	2 528	1 698	2 366	1 514	(39)	(6)	(15)	(11)
R8.1K – R10K	2 287	1 812	2 677	2 209	(25)	17	15	22
<=R10K	8 828	6 259	8 665	5 465	(23)	(2)	(9)	(13)
R10.1K – R15K	4 401	3 357	4 710	3 711	(28)	7	1	11
>R15.1K	62 026	45 886	64 594	52 954	(11)	4	(1)	15
Total	75 255	55 502	77 969	62 130	(14)	4	(2)	12
Total Rand value of unsecured credit granted by								
income category								
<=R10k	23 049	16 711	23 766	16 307	(22)	3	(4)	(2)
R10.1K – R15K	14 943	10 733	14 965	11 364	(13)	-	(4)	6
>R15K	37 085	28 062	39 240	34 453	(8)	6	1	23
Total	75 077	55 506	77 971	62 124	(14)	4	(2)	12
Current portion of gross debtors book								
Mortgages	769 568	788 033	785 565	788 153	4	2	4	_
Secured credit	317 501	329 421	337 326	341 389	8	6	6	4
Credit facilities	169 283	176 410	181 227	179 897	10	7	8	2
Unsecured credit	119 303	114 633	117 552	121 379	(3)	(1)	(3)	6
Short-term	1 364	2 265	2 648	2 057	142	94	15	(9)
Developmental credit	22 109	29 173	31 000	38 484	16	40	1	2
Total	1 399 128	1 439 935	1 455 318	1 471 359	5	4	5	2

Source: NCR Consumer credit market report third quarter September 2016 and supporting data set.

The regulatory environment

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

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

Legislation or body	Function
Basic Conditions of Employment Act, 1997	Give effect to the right to fair labour practices by establishing and making provision for the regulation of basic conditions of employment.
Companies Act, 2008	Provides for the incorporation, registration, organisation and management of companies.
Compensation for Occupational Injuries and Diseases Act, 1993	For the compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees during their employment.
Consumer Protection Act, 2008	Regulates the relationship between suppliers and consumers in order to protect the rights of the consumers.
Debt Collection Act, 1998	For the establishment of the Council for Debt Collectors to legalise the recovery of fees or remuneration by registered debt collectors.
Electronic Communications and Transactions Act, 2002	Guarantees the validity of agreements concluded, either partly or wholly by a data message.
FICA	FICA complements POCA and provides an administrative framework to combat money laundering.
Income Tax Act, 1962	Consolidates the law relating to the taxation of incomes and donations, provides for the recovery of taxes on persons, the deduction by employers of amounts from the remuneration of employees in respect of certain tax liabilities of employees and for the making of provisional tax payments and for other related tax matters.
Long-Term Insurance Act, 1998	To provide for the registration of long-term insurers and the control of certain activities of long-term insurers and intermediaries.
Occupational Health and Safety Act, 1993	Provides for the health and safety of employees at work and against hazards arising out of or in connection with the activities of employees at work.
POCA	Deals with money laundering, racketeering and criminal and civil forfeiture, and sets out the substantive money laundering offences.
Prevention and Combating of Corrupt Activities Act, 2014	Provides strengthening measures to prevent and combat corruption and corrupt activities and for the reporting of corrupt transactions or offences.
Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2014	To regulate the intersection of certain communication.
Protection of Personal Information Act, 2013	Promotes the protection of personal information processed by public and private bodies and establishes minimum requirements for the processing of personal information.
SARS	The nation's tax collecting authority is responsible for administering the South African tax system and customs service.
Short-Term Insurance Act, 1998	To provide for the registration of short-term insurers and for the control of certain activities of short-term insurers and intermediaries.

Legislation or body	Function	
The Banks Act, 1990 Protects the public by regulating and supervising the entities which take their deposits.		
The National Payment System Act, 1998	Regulates the South African financial settlement system in line with international practice and systematic risk management procedures.	
The NCA	Legislation aimed at protecting certain types of consumers. The NCA regulates the granting of consumer credit and provides for advanced standards of consumer information. The NCA requires credit providers to register with the NCR.	
The NCR	The NCR oversees retail credit market regulation and supervision, including unsecured lending.	
The PASA	Facilitated the introduction of payment clearing house agreements and agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in interbank settlement.	
The SARB	South Africa's central bank is responsible for the regulation and supervision of the banking sector in South Africa, with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole.	
Value Added Tax Act, 1991	To provide for taxation of the supply of goods and services and the importation of goods.	

Following the global economic and financial crisis, regulation and supervision of the global financial system has been and will continue to be a priority for governments and supranational organisations. Specifically, Basel issued revised minimum global standards for banks which places an enhanced emphasis on the consistency and quality of capital and on curtailing liquidity risk. These include the Basel 3 proposals, implemented from 1 January 2013, with various phase-in arrangements. Refer to chapter 7 for further details pertaining to Basel 3.

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

Credit ratings

Capitec Bank's outlook and credit ratings from S&P Global Ratings, shown in the table below, have remained the same for the 2017 financial year.

	Long-term	Short-term	Date
Global scale ratings	BB+	В	18 October 16
National scale ratings	zaA	zaA-2	18 October 16

At 28 February 2017, the long-term global scale ratings carried a negative outlook.

South Africa's sovereign ratings affects the South African banking sector credit ratings and the negative outlook on the bank's ratings, according to S&P, "reflects South Africa's slowdown in economic growth, high inflation and the positive interest rate cycle, which is placing additional pressure on financial institutions' asset quality and earnings".

Thus, a potential downgrade of the sovereign's credit ratings in the next year is the single biggest risk to Capitec's credit ratings. Should this occur, future wholesale borrowing costs could increase. Wholesale funding, however, comprises a small portion of the bank's overall funding base.

Leadership

Use our cellphone app to bank on the goWork smarter not harder



Our leadership

At the core of our success, is effective, and ethical 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 ultimately responsible for the Capitec Group in its entirety, and instructs and oversees a management and control structure that directs and executes all functions within the organisation.

Non-executive directors

Michiel Scholtz du Pré le Roux (67)

BComm LLB, DComm (hr)

Michiel was Capitec Bank's chairman Capitec from 2007 until 31 May 2016 when he stepped down. He continues to serve on the board as a non-executive director. He was the bank's chief executive officer until 2004.

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

Petrus Johannes Mouton (40)

BComm (Maths)

Chairman of the social and ethics committee

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

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

Riaan Stassen (63)

BComm (Hons), CA(SA)

Chairman of the board and the directors' affairs committee

Riaan joined Capitec Bank as managing director in 2000 and served as chief executive officer of Capitec and Capitec Bank from March 2004 until his retirement on 31 December 2013. He succeeded Michiel le Roux as chairman of the board on 1 June 2016. He gained extensive experience in wholesale distribution and banking and held senior positions in both environments before joining Capitec. Riaan was awarded the Cape Times KPMG Business Personality of the Year award in 2007. The nomination criteria for this award included business and entrepreneurial excellence and outstanding company performance. He also serves on the board of PSG Konsult.

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

Independent non-executive directors

Reitumetse Jacqueline Huntley (54)

BProc LLB

Jackie is the managing director of Mkhabela Huntley Adekeye Inc. and has extensive experience in commercial and corporate law, including telecommunications law. She has also worked extensively in the low-cost housing arena, having advised both the Department of Housing and institutions in the housing sector on housing policy and the legal aspects of housing. Jackie assisted the City of Johannesburg with the implementation of the bus rapid transit project in the capacity of interim chief executive officer until February 2011. She serves on the board of Sentech SOC and is a director of Rorisana Basadi Investments, Ash Brook Investments 15 and Coral Lagoon Investments 194.

Jackie was appointed to Capitec and Capitec Bank's boards on 14 April 2011 and resigned on 21 September 2016.

John David McKenzie (70)

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 founding president of the South Africa-Singapore Business Council and a member of the Singapore Economic Development Board. Since 2004 he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as the chairman of the Commission of Enquiry into the Singapore Electricity and Gas Supply Systems.

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

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

Nonhlanhla Sylvia Mjoli-Mncube

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 and a Harvard University Leadership alumnus.

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

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

Chris Adriaan Otto (67)

BComm LLB

Chairman of the human resources and remuneration committee

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

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

Gerrit Pretorius (68)

BSc, BEng, LLB, PMD

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

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

Boel was appointed to Capitec and Capitec Bank's boards on 19 November 2012 and retired on 31 May 2016.

Jean Pierre Verster (36)

BCompt (Hons), CA(SA), CFA, CAIA Chairman of the audit committee

Jean Pierre is currently an equity portfolio manager at Fairtree Capital. Previous positions include investment analyst at 360NE Asset Management and analyst and portfolio manager at Melville Douglas Investment Management. Prior to entering the investment management industry, he fulfilled various roles within the Standard Bank Group, including as a credit and corporate research analyst in its Global Markets Research division, where he analysed companies' financial position from a credit perspective. He commenced his career in 2005 as a financial manager in the insurance services environment. and in 2006 he gained experience as an internal auditor in the retail banking environment.

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

Executive directors

Gerhardus Metselaar Fourie (53)

BComm (Hons), MBA Chief executive officer (CEO)

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

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

André Pierre du Plessis (55)

BComm (Hons), CA(SA) Chief financial officer (CFO)

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

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

Nkosana Samuel Mashiya (41)

MComm (Economics) Executive: risk management

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

Nkosana was appointed to Capitec and Capitec Bank's boards on 1 June 2016.

Executive management committee

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

Jacobus Everhardus Carstens (48)

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 (60)

BComm (Hons), MBA

Executive: marketing and corporate affairs

Carl served as head of marketing and corporate affairs since 2000. He retired on 31 May 2016 and he was succeeded by Francois Viviers.

Hendrik Albertus Jacobus Lourens (51)

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: 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 Ernst & Young.

Nathan Stephen Tlaweng Motjuwadi (50)

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 (49)

BComm (Hons), CA(SA) Executive: business development

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

Willem de Bruyn (46)

BSc (Hons), (Computer Science) Executive: information technology

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

Leonardus Venter (55)

BA (Hons), MA (Industrial psychology) Executive: business support centre

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

François Viviers (34)

BComm (Hons)

Executive: marketing and communications

Francois joined Capitec Bank as national brand manager in 2011. During 2015 and 2016 he fulfilled various positions at Capitec Bank, namely head: client relationship marketing and head: marketing and corporate affairs. He served on the executive management committee as a development member during 2015. He was appointed as executive: marketing and communication on 1 June 2016. Previously he was marketing manager at Shoprite (Africa and Indian Ocean Islands) (2006 to 2011) and gained extensive experience as part of Shoprite's South African brand team (2005).

Development members

There are two development seats on the executive management committee to provide senior employees with the opportunity to gain experience at an executive level. The incumbents rotate annually and the seats were filled by lain Orpen, head: forensic services and Azhar Patel, business representative during the 2017 financial year.

The development members for the 2018 financial year are: Jerome Passmore, head: project office and Dumisani Ncukana, operations manager: head office.

Corporate values

Fthics

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

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

These corporate values are manifested in a range of policies that specify ethical conduct expected from all employees and are communicated to employees on various occasions.

Matters such as our commitment to legal and regulatory compliance, actions to deal with corruption and bribery, guidelines on receiving and giving of gifts and the exclusion of political parties, candidates and campaigns from receiving sponsorships, are addressed by these policies and are reviewed on a regular

Facilities are constantly improved to ease the monitoring and regulating of the appropriateness of employee behaviour. No material breaches with regard to ethical behaviour have been reported during the period.

Human rights

Our approach to human rights is embodied in a statement approved by the social and ethics committee. We recognise that business contributes to economic welfare and therefore has a role to play in human progress. Sound human rights practices deliver 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."

on our way to becoming the best retail bank in the world

Governance and Risk Management

Know how to use credit responsibly

Share that knowledge with others



Integrated risk framework

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

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

The primary objectives of the framework are to:

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

Management operating system

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

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

Governance

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

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

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

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

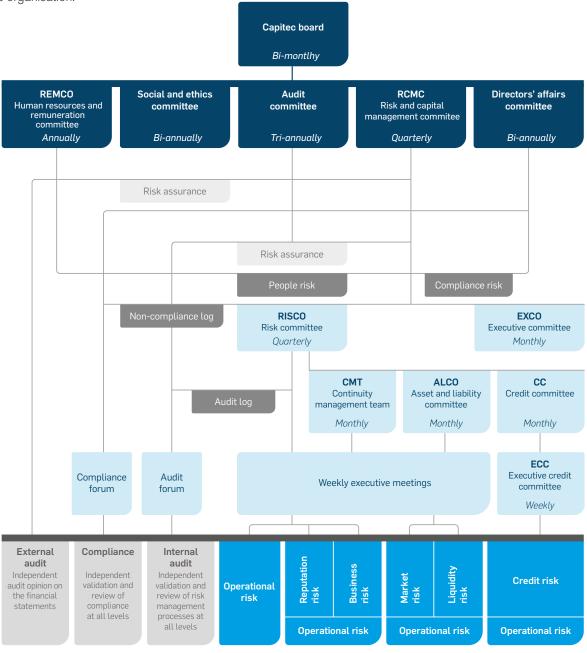
Governance structure

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

The board of directors

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



^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Composition

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

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

Assessment of independence

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

Appointment process

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

Diversity

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

Development

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

Performance assessment

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

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

The skills and expertise of the board are described in chapter 6 of this report.

Meetings and quorum

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

Committees

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

Board committee

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

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

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

Attendance of meetings by board members

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

- (1) Attendance by invitation.
- (2) Mr Mashiya was appointed to the board on 1 June 2016.
- ⁽³⁾ Mr du P le Roux resigned from the REMCO on 15 February 2017, but attended as an invitee.
- (4) Ms Huntley resigned from the board on 21 September 2016.
- (5) Mr McKenzie was appointed to the REMCO on 15 February 2017.
- (6) Mr Mouton resigned form the audit committee on 21 February 2017.
- (7) Mr Pretorius retired from the board on 27 May 2016.

Group boards

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

The Capitec Bank Holdings Share Trust is consolidated for accounting purposes. The trust is governed by a board of trustees in terms of the respective trust deeds:

· The Capitec Bank Holdings Share Trust has three independent trustees.

Company secretary

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

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

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

Conflict of interest and dealing in securities

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

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

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

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

Independent assurance

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

External audit

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

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

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

Internal audit

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

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

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

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

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

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

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

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

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

Management

Risk universe

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

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

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

Risk ownership

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

Risk control

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

Risk Reporting

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

The Capitec Risk Universe

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

CREDIT RISK

The risk of losses from borrowers not meeting their obligations.

Governance: Credit committee

Main material matter: Maintain retail credit book within risk appetite

Annual financial statements disclosure: Note 29.1

LIQUIDITY RISK

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

Governance: Asset and liability committee Main material matter: Contractual and behavioural mismatches resulting from unforseen cash flows Annual financial statements disclosure: Note 29.5

MARKET RISK

Risk of losses from value changes of financial instruments.

Governance: Asset and liability committee Main material matter: Changes in interest rates Annual financial statements disclosure: Note 29.2 to 29.4

BUSINESS RISK

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

Governance: Risk committee

Main material matter: Changes in regulatory environment

OPERATIONAL RISK

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

Governance: Risk committee

Main material matter: Application of the bank's policies

REPUTATION RISK

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

Governance: Risk committee

Main material matter: System downtime

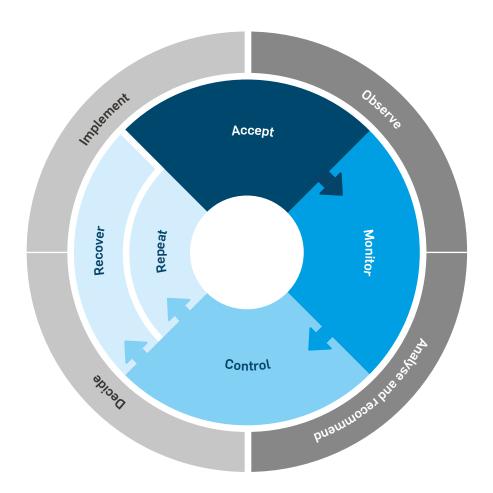
^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Credit risk

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

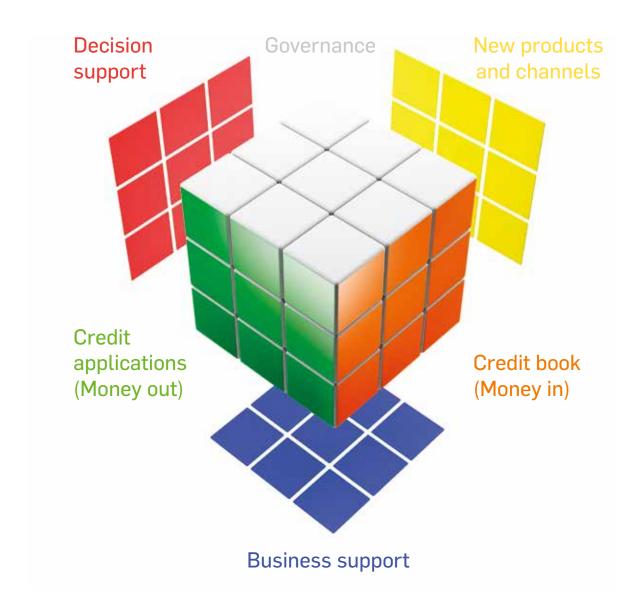
The material matter relating to credit risk management is to maintain the retail credit book within the bank's credit risk appetite through customised acquisition, retention and rehabilitation strategies. Acquisition and retention strategies are built on the principles of clients' credit behaviour (willingness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

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



^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

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



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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Governance

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

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

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

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

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

Decision support

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

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

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

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Credit applications

Central credit assessment

Credit Bureau

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

Credit granting policies, training and administration	•	Branch credit granting policy: maintenance, communication, training and monitoring.
	•	Central quality assessments of credit granted.

Monitoring of credit bureau data accuracy.

Assessment of branch referrals. Central credit policy interpretation support function to operations.

Post-implementation monitoring of credit granting changes.

Propose granting policy changes through evaluation of branch operations feedback.

Applications monitoring, insight reporting and change management

Adjust the granting policy in response to data analyses of internal and external data, operational intelligence and understanding the external environment, economic developments and regulatory and structural changes in the credit industry.

Post-implementation data monitoring against expectation to determine whether policy changes are having the intended outcome.

• Daily Management Operating System broadcasts:

- Application volumes, accept rates, take-up rates and sales in relation to targets.

- Segmentation views include client risk profiles, industry, product and income.

Weekly and monthly insight reporting with a focus on:

- Acquisition and retention of clients and understanding the nature of attrition in the client base.

Coordination of the development and implementation of strategic system and policy enhancements.

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

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Credit book

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

Collecting policies, training and administration

- Custodianship of collecting policies:
 - Maintenance, communication, training and monitoring.
- Case study analyses of distressed clients what went wrong and what could or must be done

Employer-based collection strategy

- Collections accuracy and optimisation.
- Knowledge management for proactive decision-making.
- Employment and other risk events strategy.

Insight and change management

- Insight reporting and quantification which drives monitoring and influences the applicable granting, collections and recoveries strategies:
 - Granting strategy performance tracking against target.
 - Book profiling (segmentation).
 - Arrears and provision drivers and forecasting.
 - Performance monitoring of treated account tranches through payment success and vintage curves.
 - Outsourced (external debt collectors) and process (debt review and insurance) recoveries performance.
- Coordination of the development and implementation of strategic system and policy enhancements.

Book, collections and recoveries monitoring

- Daily Management Operating System broadcasts:
- Arrears, instalment collection success, centralised collections activities and treatments and balances rolling into a fully provided state.
- Arrears treatment activity monitoring.
- Influence and quantify collecting and recovery policy enhancements and strategies in collaboration with the centralised collections, recoveries, business intelligence, finance and decision support teams.

Credit book continues on next page

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Our approach to rescheduling

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

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

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

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

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

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

Business support

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

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

New products and channels

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

Product management principles

Coordination of business case and profit model assumptions to:

- · Install appropriate credit risk management disciplines; and
- · Continuously optimise product strategy.

New product development

New channel enablement

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Counterparty credit risk

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

Investment credit risk

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

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

Other credit risk

Corporate insurers

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

Suppliers

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

Rating grades and related risk weights

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Analysis of regulatory credit exposure

		rage posure ⁽¹⁾	Aggregate gross period-end exposure ⁽²⁾⁽⁴⁾		Exposure post risk mitigation ⁽²⁾⁽³⁾⁽⁴⁾		Risk weights ⁽⁵⁾
	28 Feb	29 Feb	28 Feb	29 Feb	28 Feb	29 Feb	
Basel 3 exposure categories R'000	2017	2016	2017	2016	2017	2016	(%)
On balance sheet							
Corporate ⁽⁶⁾	3 861 160	3 019 030	2 134 996	2 839 793	1 535 430	2 678 227	100
Sovereign ⁽⁷⁾	6 020 822	4 406 793	7 222 438	4 334 487	7 222 438	4 334 487	-
Banks (claims < 3 mths original maturity)	7 326 273	5 268 302	7 399 263	4 557 540	7 399 263	4 557 540	20
Banks (claims > 3 mths original maturity	7 134 207	6 889 042	8 133 961	7 544 754	8 133 961	7 544 754	50
Banks (Derivatives > 3 mths Aaa to Aa3)	106 390	165 596	72 498	224 893	72 498	224 893	20
Banks (Derivatives > 3 mths A1 to Baa3)	6 594	13 828	4 113	13 708	4 113	13 708	50
Retail personal loans							
with unidentified impairments	40 899 057	37 309 949	40 697 973	37 040 404	40 697 973	37 040 404	75
with identified impairments ⁽⁸⁾	4 239 093	3 313 668	4 437 398	3 839 721	4 437 398	3 839 721	100
Subtotal	69 593 596	60 386 208	70 102 640	60 395 300	69 503 074	60 233 734	
Off balance sheet							
Corporate facilities	_	1 363	_	_	_	_	100
Retail personal loans							
committed undrawn facilities	_	_	_	_	_	_	75
conditionally revocable commitments ⁽⁹⁾	301 704	319 174	457 610	204 013	457 610	204 013	-
Total exposure	69 895 300	60 706 745	70 560 250	60 599 313	69 960 684	60 437 747	

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

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

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

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

^{&#}x27;Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month 6 of the respective reporting periods. All other items are the balances at the respective month-ends.

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

^{(6) 53.8% (}Feb 2016: 78.0%) of corporate (unrated) aggregate gross period-end exposure relates to investments in money market unit trusts.

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

An ageing of impaired advances based on arrears status is shown in Note 7 to the financial statements.

⁽⁹⁾ These commitments are as a result of undrawn credit facility and undrawn credit card amounts. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 52.1% (Feb 2016: 34.6%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

Liquidity risk

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

Our approach

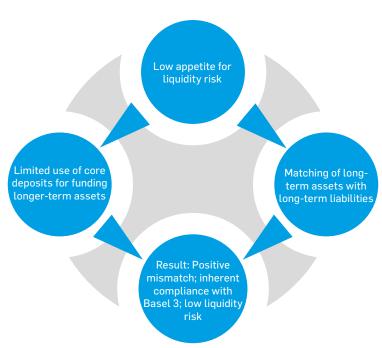
Liquidity risk is managed by the asset and liability committee (ALCO) that oversees the activities of treasury which operates in terms of an approved asset and liability management (ALM) policy.

Liquidity measurements

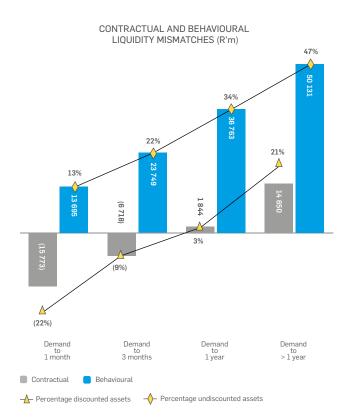
Contractual and behavioural liquidity mismatches Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than banks with lower capital ratios. The main difference between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

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

LIQUIDITY RISK MANAGEMENT STRATEGY



^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.



The Liquidity Coverage Ratio (LCR)

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

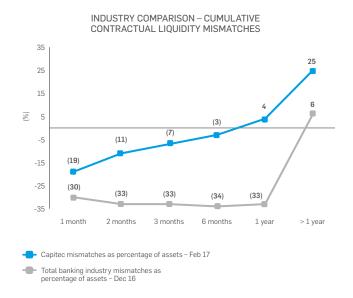
The Liquidity Coverage Ratio (LCR)

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

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

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

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



The Net Stable Funding Ratio (NSFR)

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

The Net Stable Funding Ratio (NSFR)

NSFR	2017	2016
NSFR (%)	187	145
Required stable funding (R'm)	35 337	34 406
Available stable funding (R'm)	66 187	49 968

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

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Market risk

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

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

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

Our approach

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

Interest rate risk

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

Our approach

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

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

Fixed interest rate retail loans

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

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

The impact of the liquidity strategy

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

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

The effect of shareholders' equity

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

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

Management of interest rate risk

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

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

Regulatory sensitivity analysis of equity - 200 basis point shift 2016

	201	2017		2010		
	R'000	(%)	R'000	(%)		
Increase	(645 367)	(3.8)	(700 840)	(4.2)		
Decrease	662 379	3.9	725 017	4.4		

The above analysis is calculated by modelling the impact on equity of parallel shifts of 200 basis points on the yield curve on the balance sheet. The analysis is performed on a run-off basis, using the discounted cash flow approach, in line with the requirements of the

This provides an indication of how the value of shareholders' funds may change given a shift in interest rates.

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Insurance risk

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

Equity risk

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

Currency risk

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

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

Hedging of market risk

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

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

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

Business risk

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

Our approach

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

Our risk mitigation strategy includes:

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

Daily operational management

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

- Service
- People
- · Business optimisation

Strategic management

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

Capital management

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

Capital to manage risk and growth

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

Supply-side risk

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

Demand-side risk

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

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

Capitec's principal policies when managing capital:

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

Capital for sustainability

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

Our approach

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

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

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

^{*}Denotes text in the risk management report that forms part of the group's audited annual financial statements.

ICAAP

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

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

Functions and processes of the ICAAP include:

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

The impact of Basel 3

Basel calculation methods for credit and operational risk capital

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

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

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

The impact of Basel 3 on capital adequacy measurement

Loss absorbency

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

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

Subsidiary third-party capital

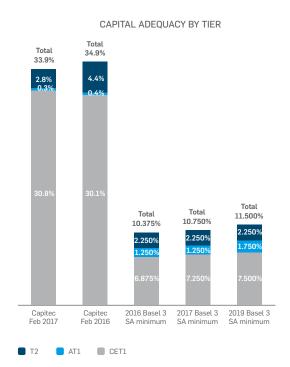
Basel 3 limits the contribution of preference share capital and subordinated debt issued by subsidiaries, in the group capital adequacy ratio. This consolidation deduction is being phased in at 20% per year from 1 January 2013. This limitation aims to encourage the issue of capital by holding companies,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

Leverage ratio

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

Restrictions on the transfer of regulatory capital

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



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

Operational risk

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

Our approach

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

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

Our risk mitigation strategy includes:

Risk mitigation strategy

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

Fraud mitigation strategy:

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

Insurance

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

Business continuity

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

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

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

Compliance

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

Notable regulators that impact our conduct:

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

Our risk mitigation strategy includes:

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

Information technology risk

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

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

Protecting our clients' information

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

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

IT governance framework

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

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

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

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

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

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

IT compliance

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

Information security management system

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

Cyber security management

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

Reputational risk

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

Our approach

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

Our risk mitigation strategy includes:

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

Stress testing and contingency planning

Stress testing programme

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

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

Contingency planning

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

Liquidity recovery plan

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

Capital recovery plan

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

simplicity is the ultimate sophistication

Our employees

Capitec invests in its people



Value catalysts

Employees are the catalysts that enable Capitec to create value for its stakeholders through delivering the required outcomes on the right leadership strategies. We invest in our employees from the moment they join and throughout their employment with Capitec. We acquire, retain, develop and reward our talent in a way that drives strategic outcomes that align with stakeholder interests.

Talent acquisition

The continued high growth of the organisation positions talent acquisition as a critical requirement for ensuring the business' sustainability. The substantial growth in total employees and the limited employee turnover requires substantial average gross appointments per month.

Our approach

The attraction, sourcing and selection of talent remain a key strategic focus. For us this is important in the context of a very competitive skills market.

We deploy job-specific sourcing and selection strategies that best suit the nature of the talent we seek for each position, as opposed to taking a single channel or blanket approach. In large areas of the business, this translates to hiring for potential, and training for competence while in the other more specialised areas we hire experienced and competent employees. Ultimately, we have a holistic approach and acquire best-fit talent.

13 069 Number of employees

> **14.8**% Employee turnover (20.5% Average financial industry turnover)

> > For the 2016 calendar year

1 529 Internal promotions

258 Promotions to management level

Special care is taken to manage the vacancy rate: the number of vacant positions as a percentage of budgeted positions within the business or a particular business area. We manage this at a company-wide level, and separately for the three main business areas (business support, head office, and operations).

Employee profile

The bulk of our external appointments are from a younger and less experienced more locally-based population than the average for the financial industry. As a result, we are creating new jobs where it is most needed, namely where the real unemployment rate is higher than the national average.

Appointments in these areas follow an approach of careful identification of potential, and efficient training for competence, resulting in further investment in employee talent beyond just employment. (See the section on learning further on in this chapter).



Our staffing of branches aligned to the local demographic of each branch by employing people from the surrounding area, ensuring cultural fit with the client. This integrates with our approach to employment equity and is evident in our workforce profile (in the table below).

Employment equity

We consider it important to provide equal opportunities to all employees. We progressively aim to increase the diversity of our managerial employees. Ensuring a fair and equitable work environment is a crucial prerequisite for employee engagement. Our following strategies align with this intent:

- · Implementing actionable outcomes from employee engagement surveys (last survey was conducted during the 2016 calendar year).
- · 74% of internal bursaries for tertiary studies are allocated to black employees and 56% to females.
- 1772 of participants in Bank SETA learnerships are black and 1 492 female.
- 39% of our graduate bursars are black and 17% are female.
- 100% of our graduate development programme participants are black and 29% are female.
- 57% of our management learning participants are black and 31% are female.

The table below is the designated progress EEA2 reporting information submitted for the period December 2015 to November 2016 as per Department of Labour's statutory reporting requirements:

Capitec Bank workforce

We ensure that the best people, with the

EMPLOYEE AGE PROFILE (YEARS)

appropriate skills and capabilities, are

in the right roles and are engaged and

focused on the correct activities.

LITII LOTEL AGE	TROTILE (TEARS)	
51 +	1%	
46 – 50	1%	
41 – 45	3%	
36 – 40	7%	
31 – 35	17%	
26 - 30	40%	
25 and less	31%	

		Ma	le			Fem	ale		Foreign i	nationals	Grand
Occupational Levels	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Total
Top management	2	_	_	10	_	_	_	_	_	_	12
Senior management	4	3	2	69	_	1	-	9	_	-	88
Middle management	43	61	23	276	31	34	9	112	9	-	598
Junior management	396	250	52	282	811	347	69	225	8	5	2 445
Semi-skilled	2 302	667	116	207	4 633	1 195	170	264	_	13	9 567
Unskilled	143	7	2	-	116	6	-	_	-	-	274
Total permanent	2 890	988	195	844	5 591	1 583	248	610	17	18	12 984
Temporary employees	1	_	_	4	3	9	_	4	_	-	21
Grand Total	2 891	988	195	848	5 594	1 592	248	614	17	18	13 005

Retention

Sustaining the employee growth by acquiring talent suited to a bank that is markedly different from other financial institutions, results in a uniquely young employee demographic with related retention characteristics.

Our approach

We consider healthy retention as important to both the employer and the employee. As much as the employer manages retention to ensure sustainability and return on its investment in talent, employees require the opportunity to develop and mature their talent in the job market.

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

The below graph illustrates the most recent four calendar year's average turnover for the financial industry compared to that of Capitec over the same period.

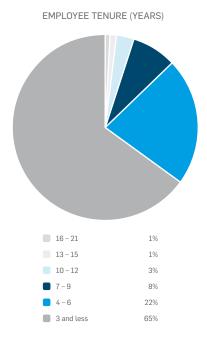
These figures show that Capitec's employee turnover is consistently lower than that of the financial industry over the past four years.

Capitec's employee tenure profile, is a natural result of our continued employee growth (3 538 external appointments over the reporting year alone). Given the acceptable turnover figures, we are comfortable with the employee tenure profile.

> CAPITEC EMPLOYEE TURNOVER RATE VERSUS FINANCIAL INDUSTRY AVERAGE (PWC SURVEY)



Turnover figures stated are calculated as total separations for the calendar year divided by total number of employees at the end of the calendar year, to enable comparison with financial industry turnover figures over the same period.



Talent development

Talent development is a concerted team effort by all the human resource departments and employee line management. Although internal promotions and promotions to management levels are recognised as having an impact on retention, this is only considered a healthy by-product of the much larger talent development effort, which is considered to be a greater retention factor.

Learning

At Capitec, learning is a critical part of our talent development.

Our approach

We grow employee competencies by using effective and efficient learning interventions and programmes. This is part of our drive towards improving the level of engagement of our employees and align to business strategies. The Executive: human resources, leads all the initiatives in learning and development. The design and delivery phases of learning programmes involve senior management to ensure that the programmes meet business objectives.

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

Objectives achieved over the reporting year:

- · Accelerated leadership and management development at head office and business support through learning initiatives that support related initiatives in operations. Leadership development follows a three tiered approach, i.e. senior management, middle management and team leader levels.
- Continued efficiency of the on-boarding programme for new employees.
- Distance learning for all topics in the business, reaching all employees. This included e-learning, assessments, system simulations, performance support tools, videos, and team learning sessions.
- Facilitated learning sessions including those in the categories of compliance, functional/technical/operations/customer service, induction/on-boarding, management and leadership.
- · Four different accredited learnerships as well as a programme for recognition of prior learning. Qualifications obtained are certificates in banking at either a NQF levels 4 and 5.

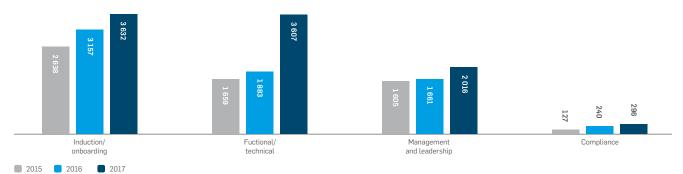
Over the next financial reporting year, we will continue to support Capitec's rapid growth as well as improving the level of engagement of employees at all levels of the business.

Objectives for the financial reporting year ending 2018:

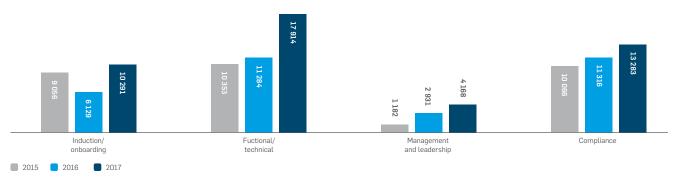
- · Continued focus on management and leadership development.
- · Continue formal learning programmes that cover compliance, functional/technical/operations/customer service, induction/on-boarding, management and leadership.
- · Specific focus on informal learning and the changing of the learning culture to empower employees to take ownership of their own development.
- High priority to support strategic initiatives, i.e. implementation of business projects and the implementation of the Agile way of working methodology at an enterprise level.
- · Improve client centricity through the implementation of programmes that drive understanding of our clients and incorporate these into our strategies and activities.
- · Increase the accredited learnership offerings to all employees.

The graphs below categorises the number of learning interventions over the past three reporting years.

NUMBER OF EMPLOYEES ATTENDING COURSES



NUMBER OF COMPLETED DISTANCE LEARNING



Talent management

Clear performance, development and career goals are essential for employee engagement and the larger talent development effort.

Our approach:

- · A business-driven and dynamic performance management system is used as a tool to optimise company performance and to manage talent identification and development.
- · A graduate bursary scheme to support long-term talent pipelines in IT, finance, and credit. We granted 29 bursaries in 2016 and aim to grant 20 in 2017.
- · A graduate development programme to support the diversification of our managerial group. Seven graduates entered the programme in 2017.
- Talent diagnostic and review sessions are conducted with all departments. Based on these reviews, succession needs, development opportunities, and risks are identified and actioned.
- · Employee engagement and retention initiatives are developed and implemented across Capitec.

Employee relations

In order for employees to engage, and develop their talent, it is critical that we promote and foster a healthy relationship between the line manager and their direct report, ensuring that both parties take responsibility for their actions.

Our approach:

- · Proactive management encouragement of two-way communication across all levels.
- Employee-related policies, including (but not limited to) disciplinary, grievance and sexual harassment policies.
- The communication of these policies to employees.
- Continuous monitoring to ensure compliance with the applicable legislation.

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

No working hours were lost due to industrial action.

Performance management

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

Our approach:

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

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

Remuneration report Part 1: Background statement

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

Capitec continued to challenge traditional banking by focusing on our customers and providing simplified, accessible and affordable banking.

During the year we did not make material changes to our remuneration policy, having undergone a detailed review and amendments in the financial year 2016; however, we continually monitor developments in regulation, best practice, related changes in the market, and received input from stakeholders. We ensure that our remuneration policy remains suited to a continually changing context. We adopted a three-part remuneration report approach. Part 1 consists of a background statement/chairman's letter reporting on the factors that influenced remuneration policy as well as any forward-looking approaches. Part 2 contains the forward-looking remuneration policy. Part 3 illustrates the implementation of remuneration policy over the financial year. Here follows a summary of our overarching remuneration philosophy, business drivers and pay mix:

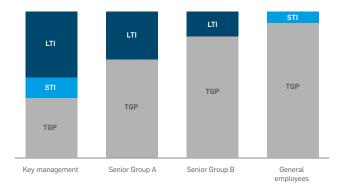
Our remuneration philosophy

Our remuneration philosophy originates from our stewardship of stakeholder interests. We develop strategies that best advance stakeholder interests through sustainable growth. This we link to remuneration based on the performance of these strategies.

This philosophy is integrated across all employee levels to ensure that only actions that advance stakeholder interests are rewarded. We take special care to remain relevant in the market and to compete effectively for critical talent.

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

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



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

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

For senior management (and critical roles), LTIs are awarded subject to company performance being on-target and personal performance being satisfactory. Awards are settled in three cash tranches spread equally over three years.

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

Fair and responsible remuneration

Key management remuneration should be fair and responsible in the context of overall employee remuneration. Capitec is sensitive to socio-economic challenges and the need for corporates to address unfair income disparities in society. The steps taken in this regard include:

- · Measurably improving the credit health and general financial wellness of employees through education and credit rehabilitation in partnership with a specialist service
- · Improving our employee health benefits (including an additional subsidy, a greater range of options geared for all income groups, and improved support through an independent brokerage):
- · Adding a temporary disability benefit to our existing risk cover for all employees; and
- Career mapping of employees.

Feedback from shareholders on the 2016 financial year

Shareholder engagement is a critical part of stakeholder engagement; therefore, the REMCO charter specifies that adequate disclosure must be made to stakeholders to "facilitate constructive engagement with all relevant stakeholders, including shareholders". In 2015, 17.6% out of 75.5% of votes were exercised against the remuneration policy as implemented. The REMCO subsequently addressed concerns expressed, and in 2016, 99.4% out of 78.9% of votes were exercised in favour of the policy as implemented.

Forward-looking approach

The REMCO will continue to evaluate the remuneration policy based on best practice and feedback received from stakeholders:

Remuneration aspect	Forward-looking approach for the 2018 financial year
Organisation-wide remuneration, specifically including, but not limited to, ensuring that the remuneration of key management is fair and reasonable in the context of overall employee remuneration.	The REMCO and management review employee remuneration and benefits on a continuous basis for, amongst other things, fairness and reasonability in general and also specifically with regards to key management remuneration in the context of overall employee remuneration.
Enhanced disclosure requirements in terms of best practice.	Our Part 3 (Implementation Report) already takes into account the majority of the latest best practice recommendations applicable to Capitec. We shall continue to monitor developments in best practice recommendations and expand on our disclosure accordingly within the provided time frames.
Sensitivity to the need for corporates to address unfair income disparities.	Continue avoiding unfair income disparities, as Capitec has done in the past.
Sensitivity to socio-economic challenges of employees.	Continue engaging and listening carefully to our employees' challenges and realities in order to continue providing useful and relevant benefits and development that has a meaningful positive impact.

At the 2017 annual general meeting of shareholders, shareholders will, as in the past, be afforded the opportunity to vote on the remuneration policy (Part 2) and its implementation (Part 3) in a single resolution.

We as the REMCO believes the Capitec remuneration policy to be supporting of the long-term business strategy of the company and look forward to receiving stakeholder support thereof.

Chris Otto

Chairman of REMCO

Part 2: Remuneration philosophy and policy **REMCO**

The REMCO governs the remuneration policy, which is designed to promote the achievement of company strategic objectives and risk management in order to foster enduring value creation for stakeholders.

The REMCO operates in terms of its board-approved charter, which adheres to section 64C of Act 94 of 1990 (the Banks Act) and which is reviewed on an annual basis.

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

In carrying out its mandate, the REMCO has unrestricted access to all the activities, records, property and employees of the company. In addition, the committee may access external legal or other independent professional advice to execute its responsibilities as detailed in its charter.

The REMCO consists of three non-executive directors, of which two are independent. The members of the committee are:

- · CA Otto (Chairman)
- JD McKenzie
- R Stassen

The REMCO met (formally) once during the year with the following attendees:

Attendee	Role	Capacity
CA Otto	Chairman of REMCO	Independent non-executive director
JD McKenzie	REMCO member	Independent non-executive director
R Stassen	REMCO member	Non-executive director (Chairman of the board)
MS du P le Roux	Non-voting invitee	Non-executive director
GM Fourie	Non-voting invitee	CEO
NST Motjuwadi	Non-voting invitee	Executive: human resources

Although the REMCO might only meet formally once a year, the REMCO topics of discussion are engaged in various other occasions leading up to the formal REMCO meeting.

> Attract and retain individuals able to create enduring sustainable value; and address remuneration risks inherent in the banking environment.

Key activities of the REMCO during financial year 2017

Activity	Result/key decision
Disclosure in terms of regulation 43 of the Banks Act.	Performed through this annual report.
As tasked by the board through the REMCO charter, confirm that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act, King IV, King III guidelines and that stakeholder feedback is taken into account.	Compliance confirmed to the board. Investor feedback taken into consideration.
Monitored remuneration practice and adherence to the remuneration policy, meeting formally at least once a year and on an ad hoc basis as deemed necessary.	Approved practice in line with remuneration policy. Meeting convened as set out on the previous page.
Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust.	Compliance with trust deed.
Evaluated annual increases, including those relating to directors.	Approved all annual increases for Capitec staff; Proposed non-executive director fees to the board for recommendation to the shareholders for consideration at the annual general meeting.
Review organisation-wide remuneration policies in line with best practice and governance standards on an annual basis, including key management bonuses and incentive schemes.	Reviewed the participation criteria for the existing senior management LTI. Expanded participation support succession planning and alignment of interests of a larger group of senior management to Capitec's long-term business strategy. See LTI in Part 2 of this report. Conducted a substantial review of salaries for entry-level client facing employees to ensure relevance in market and wage fairness.
As required by Basel and King $IV^{(i)}$, annually consider whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking.	The REMCO charter incorporates the relevant regulations to the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, aligned with shareholder expectation and remaining within a required risk framework. It is satisfied that these requirements are met.

Please note that the King IV Report on Corporate Governance came into effect during November 2016 and that the Practice Notices were not issued at the time of the REMCO meeting in February.

General remuneration principles

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

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

Organisation-wide remuneration approach and the wage gap

Capitec continuously reviews organisation-wide remuneration for fairness and reasonability, but this year we shall put special emphasis on:

- The particular way in which the King IV principle frames the gap between the remuneration of key management and employees at the lower end of the pay scale.
- · Continuing to ensure that equal pay is provided for work of equal value so that there are no income disparities based on gender, race, or any other unacceptable grounds of discrimination.
- · Reviewing the Employee Value Proposition (EVP) to ensure that we provide useful benefits and training to employees that better their quality of life.

We shall continue to improve the credit health and general financial wellness of employees through education and credit rehabilitation in partnership with a specialist service provider.

Pay mix

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

Level	TGP	STI	<u> LTI</u>
Key management (including CEO, CFO, and Executive: risk management)	Base salary plus benefits	Key management bonus	Share options and appreciation right
Senior management and critical roles	Base salary plus benefits	_	Senior management performance bonus scheme
General employees	Base salary plus benefits	Incentive scheme and/or annual performance bonus	-
Non-executive directors	Fixed fee only	_	-

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

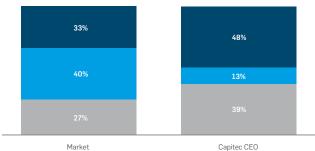
Senior management performance bonus scheme Participants: Senior management and roles identified as critical to the success of the organisation (specifically excluding key management and directors).

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

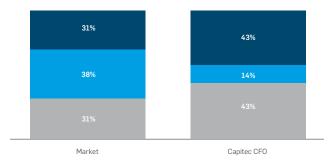
Characteristics of the scheme include:

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

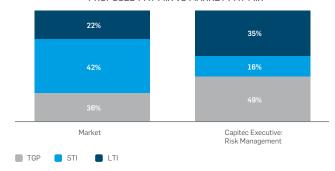
CEO: PROPOSED PAY MIX VS MARKET PAY MIX



CFO: PROPOSED PAY MIX VS MARKET PAY MIX



EXECUTIVE: RISK MANAGEMENT PROPOSED PAY MIX VS MARKET PAY MIX



Key management pay mix

The key management pay mix proportional split between TGP, STI and LTI will not change significantly from the 2017 to the 2018 financial year.

The principles determining key management pay mix remain, namely:

- · TGP should be competitive to market and sufficient in quantum to ensure that key management does not rely on variable remuneration-based short-term goals and decision-making.
- STI earning potential is conservative compared to market, supporting Capitec's key remuneration principle of long-term alignment with shareholders.
- · LTI to facilitate this long-term alignment with shareholders.

Executive director pay mix

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

The graphs express the components TGP, STI, and LTI as percentages of TR. Capitec's STI is smaller than the general financial industry services market pay mix and as a result, its TGP and LTI components for a larger portion of the TR.

Executive directors receive remuneration for services as employees of Capitec Bank. No fees are paid to them for their services as directors of any of the companies in the group.

TGP

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

STI

Capitec's key management remuneration policy and pay mix provides for a modest cash STI, but requires considerable performance. This is in line with Capitec's policy of risk alignment and encouraging long-term vision and decision-making by key management, as opposed to short-term goal setting.

Key aspects of the STI:

- · Personal performance measure: personal KPIs contracted with the REMCO by each member of key management.
- · Company performance measure: year-on-year HEPS growth.
- · Failing on-target performance in either will warrant no payment.
- · The STI is self-funded and settled in cash.

Key management's earning potential for STI:

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

LTI

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

Share options

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

Share appreciation rights

Eligible employees are granted SARs that are cash-settled, but linked to equity performance. It is a simple, yet effective instrument that does not dilute issued share capital. The SAR strike price is granted at the same time and at the same price as the options mentioned above.

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

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

Measure	Minimum requirement for vesting	Weighting
HEPS	Growth exceeding Consumer Price Index plus percentage growth in GDP plus 4%	50%
ROE	Outperform the average ROE of the 4 traditional banks in SA (Absa Bank Limited, FirstRand Bank Limited, Standard Bank Limited, Nedbank Group Limited)	50%

Capitec chose an earnings metric and a return metric (equally weighted) as company performance conditions for vesting to ensure that the combination motivates key management to drive both measures as opposed to one measure at the cost of another. The targets set are absolute targets and the concept of threshold does not exist. This is because Capitec believes that performance below minimum requirements does not warrant any vesting.

Both are measured over a cumulative three-year performance period.

The extent to which the performance conditions are met will determine the percentage vesting. If the HEPS measure is met, but not the ROE measure, 50% will vest and vice versa. If both measures are met 100% will vest and if both measures are not met nothing will vest.

After the initial three-year financial performance period, vesting is further subject to continued employment for years four, five and six.

Termination of employment and effect on unvested LTI Retirement: The following table sets out the vesting of LTI on retirement, subject to REMCO discretion:

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

Just cause dismissal/resignation: Unvested LTI's are forfeited.

Death and ill-health: At the discretion of the REMCO, automatic vesting of LTI.

Share dilution usage for LTI

Since the establishment of Capitec, 16.9 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these options that have been exercised. The balance of ordinary shares required to settle options that have been exercised, were acquired in the market.

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

The past dilutive effect of issues of ordinary shares for purposes of the Trust since inception of Capitec remains at 5.04% of the issued ordinary share capital of Capitec as at 28 February 2017.

The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 28 February 2017.

Executive director and key management contracts

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

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

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

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

Alignment of remuneration with risk, and minimum shareholding requirements

The REMCO forms part of the formal risk governance framework, and is mandated by their charter to assess the appropriateness of the risk/reward relationship in remuneration structures. The 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 REMCO reviews variable remuneration and incentive plans to ensure that they are based on a measurable end result.

Risk and compliance employees' remuneration established independently

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

Minimum shareholding requirements (MSR)

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

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

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

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

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

Non-executive director (NED) fees

NED remuneration is based on a fixed-fee structure not related to the attendance of meetings. The chairman of the board is paid a retainer and receives no further payment for membership of committees. Board members receive a retainer for membership of the board and for each subsequent board committee they served on. No fee is paid in respect of the directors' affairs committee.

NEDs do not qualify for any STI.

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

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

Proposed 2018 financial year NED fees

The following proposed 2018 non-executive directors' fees will be tabled for approval by stakeholders (in terms of the Companies Act, Act 71 of 2008) at the group's AGM to be held on 26 May 2017. Refer to special shareholders resolution number one in the notice of AGM.

Directors' fees (R'000)	2018	2017	Change (%)
Chairman of the board	1 300	1 200	8
Chairman of the audit committee, RCMC and REMCO	250	235	6
Chairman of the social and ethics committee	60	55	9
Committee membership	60	55	9
Board membership	300	275	9

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

Part 3: Implementation of remuneration policy for the financial year

Implementation of the policy is illustrated by providing:

- · An overview of the incremental total remuneration growth over the past four years compared to some key financial metrics (i.e. the value added to shareholders in terms of metrics such as HEPS and ROE);
- TGP increases in line with the Capitec total remuneration policy approach;
- STI earned versus the actual outperformance to targets set;
- · LTI awarded to key management during the year under review, cash value of LTI exercised, as well as the balance of LTI (unvested) which could vest in future years;
- · A single remuneration figure for the value of TGP, STI and any LTI vested where such LTI vested is based on financial performance periods ending during financial year 2017 or as at 28 February 2017; and
- The NED fees paid to individual NEDs for their services as board members and committee members.

Minimum shareholding requirements were met, as set out in the policy.

Performance versus incremental remuneration increase

	Headline earnings (R'm)		Remuneration as percentage of headline earnings (%)	ROE (%)
2017	3 793	90	2	27
2016	3 222	101	3	27
2015	2 547	62	2	25
2014	2 017	41	2	23
2013	1 584	42	3	27
Value created over four-year period versus remuneration cost differential	2 209	48		

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

The paid progression on total remuneration is illustrated in the above table. It is deemed to be reasonable considering the value created for investors over the four-year period in comparison to the incremental total remuneration increase over the same period.

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

Executive directors (R'000)	2017	2016	Change (%)
GM Fourie	9 830	8 486	16
AP du Plessis	7 601	6 921	10
NS Mashiya	3 845	1 181	9(2)
	21 276	16 588	28

The company contribution to the Employee Share Purchase Scheme was removed from the TGP value and stated separately in the executive director single figure (see page 95) from this year's report as it was reconsidered and found to not be part of guaranteed pay.

NS Mashiya started 1 November 2015, and as a result, his 2016 TGP relating to the 2016 financial year was only for 4 months, whereas his 2017 TGP was for a full year.

GM Fourie and AP du Plessis's increases were the result of the combination of:

- · the tapering end of the adjustments to bring key management TR in line with the market, as explained in detail in last year's report; and
- exceptional performance delivered over the 2016 financial year.

⁽²⁾ Annualised percentage as explained below.

STI

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

Executive directors	2017 financial year STI amount (R'000)	Actual 2017 STI as percentage of annual TGP (%)	On target STI earning potential as percentage of TGP (%)	Margin by which Capitec's HEPS performance exceeded the budgeted HEPS
GM Fourie	3 750	38	33	17.7% actual year-on-year HEPS
AP du Plessis	2 861	38	33	growth versus budget of 15%
NS Mashiya	1 418	37	33	

A year-on-year growth in HEPS of 17.7% was achieved. This was at the stretch performance value agreed before the start of the year.

LTI

The table below provides an overview (on an executive director basis) of the options and SARs awarded during the year, those which were exercised as well as the balance of options or SARs not yet vested and/or exercised (outstanding LTI). It further illustrates the cash value of instruments exercised during the year. No options and SARs lapsed during any of the financial year's listed.

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

The cash value of exercised instruments was calculated as the number of instruments exercised in the year multiplied by the market value on exercise date less the strike price of each instrument.

GM Fourie

		Instrume	nts awarded		Instrument	s exercised		unexercise	ed and/or d instruments al year-end
	Financial year	Number	Strike price (R)	Number	Market value ⁽¹⁾ (R'000)	Strike amount paid ⁽²⁾ (R'000)	Cash amount received ⁽³⁾ (R'000)	Closing number of instruments	Indicative value of instruments ⁽⁴⁾ (R'000)
Options									
	2013	20 000	198.52	74 000	15 744	2 490	13 254	169 000	20 727
	2014*	17 500	201.40	_	_	_	-	_	_
	2014*	27 500	209.83	64 000	13 707	2 391	11 316	150 000	9 613
	2015	18 330	196.43	81 875	23 002	4 572	18 430	86 455	18 469
	2016	91 487	371.88	19 582	9 684	3 478	6 206	158 360	27 541
	2017	36 677	473.05	6 875	4 698	1 443	3 255	188 162	72 988
SARs									
	2013	20 000	198.52	46 875	10 628	1 585	9 043	155 000	18 597
	2014*	17 500	201.40	_	_	_	-	_	_
	2014*	27 500	209.83	50 000	10 822	1 889	8 933	150 000	9 613
	2015	6 225	0.01	52 500	10 967	2 289	8 678	103 725	26 868
	2016	31 106	0.01	45 931	21 339	4 861	16 478	88 900	31 339
	2017	36 677	473.05	6 875	4 710	1 443	3 267	118 702	59 352

^{*}GM Fourie was appointed as CEO during 2014 and received additional options and SARs due to this event.

AP du Plessis

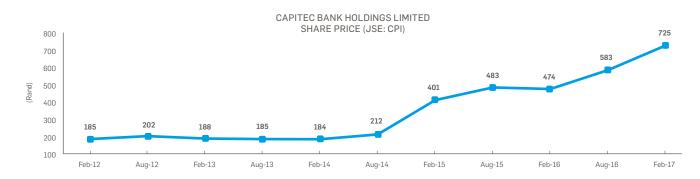
	Instrume	nts awarded	Instruments exercised			Unvested and/or unexercised instruments at financial year-end		
Financial year	Number	Strike price (R)	Number	Market value ⁽¹⁾ (R'000)	Strike amount paid ⁽²⁾ (R'000)	Cash amount received ⁽³⁾ (R'000)	Closing number of instruments	Indicative value of instruments ⁽⁴⁾ (R'000)
Options								
2013	20 000	198.52	82 125	17 875	2 780	15 095	185 250	22 580
2014	17 500	201.40	72 125	15 158	2 681	12 477	130 625	10 912
2015	23 746	196.43	87 500	24 422	5 083	19 339	66 871	14 746
2016	69 454	371.88	22 186	10 972	3 944	7 028	114 139	19 546
2017	22 420	473.05	_	_	_	_	136 559	53 844
SARs								
2013	20 000	198.52	50 000	11 600	1 696	9 904	166 250	19 689
2014	17 500	201.40	53 125	11 512	2 000	9 512	130 625	10 912
2015	8 065	0.01	56 875	11 887	2 601	9 286	81 815	23 054
2016	23 614	0.01	48 891	22 755	5 261	17 494	56 538	21 570
2017	22 420	473.05	-	_	_	_	78 958	41 410

NS Mashiya

		Instrume	nts awarded		Instruments exercised				ed and/or d instruments al year-end
	Financial year	Number	Strike price (R)	Number	Market value ⁽¹⁾ (R'000)	Strike amount paid ⁽²⁾ (R'000)	Cash amount received ⁽³⁾ (R'000)		Indicative value of instruments ⁽⁴⁾ (R'000)
Options									_
	2016	35 500	539.88	_	_	-	-	35 500	(2 339)
	2017	7 791	473.05	_	_	_	_	43 291	8 535
SARs									
	2016	12 000	0.01	_	-	-	-	12 000	5 688
	2017	7 791	473.05	_	_	_	-	19 791	10 663

⁽¹⁾ Gross value of the instruments exercised.

⁽⁴⁾ The indicative value was calculated based on the number of unvested and/or unexercised closing instruments as at the applicable financial year-end multiplied by the applicable year-end Capitec share price, less the strike amount payable relevant to these instruments.



⁽²⁾ Total strike amount paid for each tranche of instruments exercised.

⁽³⁾ Cash amount received equals the pre-taxation cash amount.

Executive director single figure

The single figure remuneration (i.e. TGP, STI and LTI) discloses the cash value of TGP and STI for the year and LTI (options and SARs) which vested on the basis of performance conditions measured on 28 February 2017.

As Capitec imposed financial performance conditions on options and SARs from the 2016 award date, testing of performance conditions for vesting will be applicable from 28 February 2019 from which point vested LTI will be included in the table below.

Subsequently, the LTI column in the single figure below has been omitted and, to make the reporting transition easier, the LTI table on pages 95 to 96 has been supplemented with the cash value of exercised instruments for the 2017 financial year.

Executive directors (R'000)	TGP (including guaranteed benefits)	STI	Company contribution to employee share purchase scheme ⁽¹⁾	Total remuneration for the year
2017				
GM Fourie	9 830	3 750	_	13 580
AP du Plessis	7 601	2 861	_	10 462
NS Mashiya	3 774	1 418	71	5 263
	21 205	8 029	71	29 305
2016				
GM Fourie	8 090	4 427	396	12 913
AP du Plessis	6 758	3 646	163	10 567
NS Mashiya	1 181	608	-	1 789
	16 029	8 681	559	25 269

The company contribution to the employee share purchase scheme was removed from the TGP value and stated separately in the executive director single figure from this year's report as it was reconsidered and found to not be part of guaranteed pay.

NED actuals (as approved at previous AGM)

2017 vs. 2016 financial years

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

Non-executive directors' (R'000)	2017	2016	Change (%)	2015
R Stassen (Chairman) ⁽¹⁾	1 004	388	159	283
CA Otto	620	574	8	531
G Pretorius ⁽²⁾	79	306	(74)	283
JD McKenzie	565	522	8	483
JP van der Merwe ⁽³⁾	_	29	-	531
JP Verster	565	491	15	_
MS du P le Roux ⁽⁴⁾	589	1 200	(51)	1 200
NS Mjoli-Mncube	330	306	8	283
PJ Mouton	495	462	7	427
RJ Huntley ⁽⁵⁾	184	306	(40)	283
	4 431	4 584	(3)	4 304

⁽¹⁾ Appointed as chairman 1 June 2016.

⁽²⁾ Retired as of 27 May 2016.

⁽³⁾ Retired as of 20 March 2015.

⁽⁴⁾ Retired as chairman of the board on 27 May 2016, but continues to serve as a non-executive director.

⁽⁵⁾ Resigned from the board on 21 September 2016.

Remuneration analysis

Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	12	101	12 956	13 069	Key performance indicators
Remuneration awards						
Fixed	R'000	53 063	145 105	2 134 975	2 333 143	
Cash remuneration	R'000	53 063	145 105	2 134 975	2 333 143	Note 24
Variable	R'000	324 041	100 856	123 250	548 147	ı
Cash staff performance bonus	R'000	18 528	797	123 250	142 575]
Cash bonus bank	R'000	_	61 317	_	61 317	
Share options ⁽¹⁾	R'000	176 370	20 088	_	196 458	Note 24
Share appreciation rights ⁽¹⁾	R'000	129 143	18 654	_	147 797	Note 24
Variable remuneration						
Non-deferred	R'000	18 528	22 824	123 250	164 602	
Deferred	R'000	305 513	78 032	-	383 545	
Outstanding deferred remuneration	R'000	427 740	146 131	_	573 871	
Cash bonus bank	R'000	_	81 024	_	81 024	Note 17
Share options ⁽¹⁾	R'000	242 329	33 485	_	275 814	Note 39
Share appreciation rights ⁽¹⁾	R'000	185 411	31 622	_	217 033	Note 40
Deferred remuneration paid out	R'000	45 765	18 532	-	64 297	
Cash bonus bank	R'000	_	16 486	_	16 486	
Share options ⁽¹⁾	R'000	18 724	2 046	_	20 770	
Share appreciation rights ⁽¹⁾	R'000	27 041			27 041	
Employees' exposure to adjustments	R'000	427 740	146 131	_	573 871	
Implicit adjustments	R'000	427 740	65 107	_	492 847]
Post explicit adjustments	R'000	_	81 024	_	81 024	
Total remuneration exposed to adjustments	R'000	427 740	146 131	_	573 871	
Implicit adjustments	R'000	427 740	65 107	_	492 847	
Post explicit adjustments	R'000	_	81 024	_	81 024	
Reductions due to post explicit adjustments	R'000	-	-	-	-	

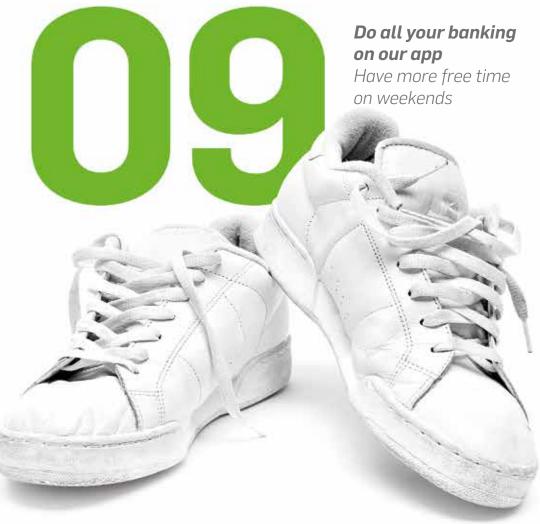
⁽¹⁾ The remuneration relating to share options and share appreciation rights for strategic management, includes the costs relating to R Stassen, a former executive director who retired on 31 December 2013 and remained involved as a non-executive director from 1 January 2014, as well as two executive officers who retired during the previous financial year inline with the remuneration policy and one executive officer who resigned during the current financial year.

we're committed to saving our clients time and money, and helping them bank securely

#BankBetter



Community Involvement



Communities

Capitec continues to offer simplified and affordable banking solutions to millions of South Africans. Since inception, Capitec has responded to the challenge of financial inclusion and has helped to bank the unbanked consumers, enabling them to manage their financial lives better. This has also inspired them to live better, improving quality of life.

Capitec's low-cost, simplified product offer has benefitted consumers and created the opportunity for consumers to access affordable credit responsibly which they could use for education, home improvements and general economic welfare.

Capitec's accessibility approach ensures branches are opened in areas closer to communities, places of work and public transportation. During the 2017 financial year, Capitec opened 76 new branches, bringing the total to 796 branches nationally. Confidence in the bank is evident with an average of over 100 000 new clients joining every month.

Employment

To support our growing client base, Capitec continues to grow its operations and its workforce. This is critical for its long term sustainability and meeting current capacity needs.

During the 2017 financial year, Capitec created 1 629 new jobs, bringing the total number of employees to 13 069. Most of these are school leavers, employed from communities where Capitec operates. This helps with delivering best service to local clientele and contributes towards the upliftment of those communities. Stable and permanent jobs created helps to improve the development of society and enhance the standard of living.

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

Corporate social investment

Capitec realises that the long-term sustainability of its business lies in the development and upliftment of the community within which it operates which is why we invest in the youth and education management in these communities. We believe that by empowering the learners, teachers and principals we are empowering the community.

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

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

To support our CSI programme, the Capitec Foundation (The Foundation) was established in June 2015. The Foundation is an independent non-profit organisation that incorporates the corporate social investment initiatives of Capitec Bank. The Chairperson of the Foundation is Carl Fischer, previous executive of marketing and corporate affairs.

The Capitec Foundation focuses on three main areas of support, namely high school education, with a specific focus on mathematics, financial literacy and community support (donations).



Education

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

Bursaries – high school learners

We offer selected high school learners who meet our criteria bursaries that cover their annual school fees. Our bursary programme recruits talented but under-resourced learners who study mathematics. During the 2017 financial year, 269 learners from 56 schools qualified for bursaries in the Western Cape Metro and Winelands districts. The Capitec Foundation held a two-day conference for mathematics teachers from the 56 schools participating in our programme. The aim of the conference was to motivate, inform, show support and connect with Capitec bursary school teachers.

The bursary programme expanded to 11 schools in Queenstown in the Eastern Cape in partnership with the Nelson Mandela Metropolitan University (NMMU). This year 48 Grade 10, 48 Grade 11 and 48 Grade 12 learners participated in the programme.

We sponsor these learners in the Nelson Mandela Metropolitan University's Incubator School Programme (ISP) that is offered by its Govan Mbeki Maths Development Unit (GMMDU). The ISP programme provides learners in the Queenstown district with a tablet, assisted weekly extra mathematics and covers their school fees for the year.

The aim is to keep learners in the programme until they are in a position to access higher education with a matric pass, with new Grade 10 intakes every year.

Management programme for school leaders

We granted 23 bursaries to school principals, studying for a Certificate in a Management Development Programme (MDP) through the UCT Graduate School of Business this year. This is in partnership with the Principals Academy. The support includes the academic course, mentorship and school support.

Through this programme, we hope to strengthen the capacity of principals and the school management teams. This will also assist in building a sustainable school performance.

Primestars eduCate Revision Programme

The eduCate Revision Programme for Grade 12 learners provides learners from disadvantaged backgrounds tutoring in maths and science. It took place from 24 July to 25 September 2016 in all 9 provinces. It is hosted annually at cinemas throughout the country in the run-up to the Grade 12 exams. Capitec Foundation's sponsorship enabled 6 118 learners from 116 public schools participation in the programme.

The support is aimed at equipping matriculants with the necessary mathematics and science preparation before their final examinations.

Ikamva-Youth

Ikamva-Youth is a volunteer-driven, youth-led NGO equipping learners' from disadvantaged communities with skills and resources to access tertiary education and/or employment opportunities once they matriculate. Our sponsorship for Ikamva-Youth entails funding, capacity-building within Ikamva-Youth and improving maths and science performance of learners in the programme.

A total of 285 Grade 12 learners enrolled in Ikamva-Youth's after-school tutoring programmes in 10 branches, across five provinces, having achieved a 85% pass rate; 69% of which were either Bachelor or Diploma passes, ensuring their eligibility for tertiary studies.

Financial literacy

Financial life skills programme

Capitec Foundation held financial life skills workshops and presentations as part of it's educational programmes. The learners, parents, teachers and school leaders from schools supported by the Foundation, attended the workshops and presentations.

The aim was to empower the audience with basic financial life skills, and to encourage them to use the skills learnt to influence their communities. Employees were encouraged to volunteer their skills and time, to training learners via different educational programmes.

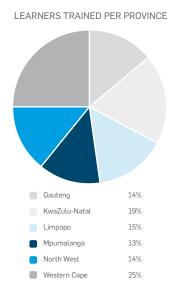
A total of 2 296 participants were reached through face-to-face workshops and presentations were conducted to 468 people on various topics.

Starsaver (previously Teach Children to Save) campaign

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

During the 2016 calendar year, 12 Capitec Bank volunteers reached 1 605 learners from 15 schools.

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



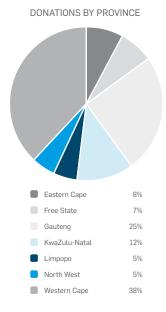
Community support

Sponsorships

We sponsor initiatives focusing on mathematics. This year we sponsored the National Science Week and The University of Cape Town's mathematics competition.

Donations

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



Color Run

Capitec Bank has partnered with initiatives such as The Color Run, which allows us to connect with communities all over the country and engage like-minded South Africans on living better. Capitec has donated R10 from every paid entry ticket of The Color Run towards supporting a local school. This is done in partnership with Adopt-a-School Foundation, a non-profit organisation that supports the creation and enhancement of a conducive learning and teaching environment in disadvantaged local schools.

R568 010 was raised during the 2016 to 2017 Color Run campaign, which took place across 12 cities and towns. Beneficiaries are mostly schools focussing on maths and science, as this is in line with the bank's CSI strategy. These schools are in communities where Color Run took place. Donations included maths and science resources, such as setting up science labs, and teacher development.

Suppliers

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

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

Summary of the Capitec Bank's Scorecard:

Element	2017	2016	Change (%)	2015
Ownership	9.19	11.42	(20)	13.32
Management	3.26	2.93	11	2.21
Employment equity	6.63	6.19	7	8.26
Skills development	9.01	9.00	-	3.76
Preferential procurement	15.27	15.26	-	14.06
Enterprise development	1.58	2.09	(24)	2.54
Socio-economic development	1.28	1.15	11	0.33
Empowerment financing	12.00	12.00	-	12.00
Access to financial services	9.30	9.29	_	9.68
Total	67.52	69.33	(3)	66.16

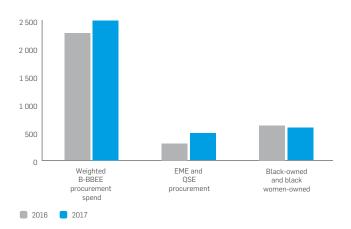
Provisional B-BBEE scorecard.

Preferential procurement

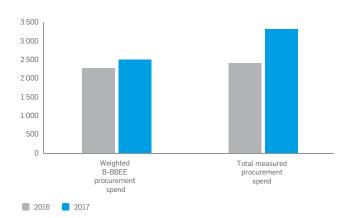
The results of the bank's preferential procurement strategy manifests in the analysis of total measured procurement value spend. The bank achieved the targets for total weighted B-BBEE procurement spend and increased its spend in all of the sub-categories:

- · R481 million (17.37% of TMPS) towards Exempted Micro Enterprise (EME) and Qualifying Small Enterprise (QSE) spend.
- R349 million (8.73% of TMPS) towards 50% black-owned business spend.
- · R228 million (3.97% of TMPS) towards 30% black women-owned business spend.

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



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



Empowerment financing

Capitec Bank achieved 12 points in the targeted investment component by reaching its allocated target of R678 million for the measurement period by providing financing for affordable housing to clients with a household income of less than R15 738 per month.

Access to financial services

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

The environment

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

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

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

Governance

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

Electricity

Capitec is reliant on Eskom for all its electricity requirements. During the year, 29 616 MWh (2016: 29 277 MWh) of electricity was consumed.

Paper

Capitec only purchases paper approved by the FSC and attempts to source local products, considering cost-effectiveness against the background of an increase in branches and employees.

Waste and recycling

Employees at head and regional offices are required to recycle paper in special paper bins and are encouraged to use the special bins provided for recyclable materials. The primary focus is to recycle paper and tins. During the year, 10 387 kg (2016: 6 792 kg) paper and 1 110 kg (2016: 1 498 kg) tins were recycled against the background of an increase in employees of 1 000.

Electronic equipment is disposed of and recycled by accredited third parties. In total 10 730 kg (2016: 6 372 kg) of electronic equipment was recycled during the year.

Carbon footprint

Methodology

- · The GHG Protocol Corporate Accounting and Reporting Standard (revised edition).
- Emission conversion factors as published by the DEFRA.
- · Operational control approach.
- The 2012 financial year was selected as base year.
- The 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2016.

Assumptions

- · The calculation is limited to Capitec Bank. All other group entities are considered immaterial.
- · Employee commute is excluded due to insufficient data.
- · Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2017 was based on accurate records. Some instances required the use of averages due to certain electricity usage data not being available. Such instances were, however, very limited and had an immaterial impact.

Target

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

Carbon footprint for the 2012 base year and 2017 reporting year:

GHG Protocol Scope		2017	2012 baseline
Scope 1: Direct emissions from		1 448	134
Fuel used in directly controlled or owned equipment	CO ₂ e tonnes	28	1
Fuel used in directly owned or controlled vehicles	CO ₂ e tonnes	36	72
Air-conditioning and refrigeration gas refills	CO ₂ e tonnes	1 384	61
Scope 2: Indirect emissions from purchased electricity	CO ₂ e tonnes	29 616	22 971
Purchased electricity – Eskom	CO ₂ e tonnes	29 616	22 971
Total scope 1 and 2	CO ₂ e tonnes	31 064	23 105
Scope 3: Indirect emissions from:	CO ₂ e tonnes	12 555	5 091
Business travel – Rental vehicles	CO ₂ e tonnes	79	46
Business travel – Commercial airlines	CO ₂ e tonnes	3 307	1 778
Business travel – Employee-owned vehicles	CO ₂ e tonnes	4 752	2 007
Product distribution – Cash in transit	CO ₂ e tonnes	3 196	858
Paper usage	CO ₂ e tonnes	1 221	402
Total scope 1, 2 and 3		43 619	28 196

Intensity footprint:

		2017		2012 baseline	
GHG Protocol Scope		Per full-time employee	Per m² floorspace	Per full-time employee	Per m² floorspace
Scope 1 emissions	CO ₂ e tonnes	0.03	0.00	0.02	0.00
Scope 2 emissions	CO ₂ e tonnes	2.12	0.08	3.19	0.15
Total	CO₂e tonnes	2.15	0.08	3.21	0.15

The carbon footprint is not subject to independent assurance.

Although there was a 55% increase in the overall Footprint between the baseline and current year emissions, there was a 33% (for space 1 and 2 emissions) reduction in the Footprint measured according to the intensity Footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.

Social and ethics committee report 2017

The social and ethics committee has been established with the purpose to monitor the group's activities with regard to:

- · Social and economic development.
- · Good corporate citizenship.
- Environmental, health and public safety.
- Impact of the company's activities and services.
- Consumer relations.
- · Labour and employment relationships.

The committee functions within the ambit of an annually

reviewed board approved charter and meets twice a year.

The members of the social and ethics committee are Piet Mouton (non-executive chairman), and Nkosana Mashiva (executive: risk management). The directors' affairs committee is in the process of appointing a third member to the committee. The executive: human resources and operational risk manager are invited to attend all meetings of the committee. The chairman may invite such executives and senior management as appropriate to attend and be heard at meetings of the committee.

Group activities monitored during the year

Social and economic development	Total economic value distributed in the 2017 financial year – page 110 Ethics and human rights – page 47 Zero tolerance for fraud and corruption – page 47, 73 Employment equity – pages 80 B-BBEE – page 106 Supplier opportunities – pages 105 to 106			
Good corporate citizenship	Community development – pages 102 to 105			
Environment and health and public safety and impact of company's activities and of its products and services	Pages 34 to 36, 107 to 108			
Consumer relations and commitment to consumer protection laws	Pages 39 to 40, 73 The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice			
Labour and employment	Pages 78 to 83			

The committee has reviewed the matters over which they are required to preside during the year and is of the view that appropriate policies, systems and internal controls are in place, supported by a conscientious management team, to promote good corporate citizenship, environmental care, fair labour practices and sound consumer relations.

The committee is of the opinion that the Capitec group complies in material respects with legislation, regulations and codes of best practice relevant within the committee's mandate.

Chairman of the social and ethics committee

Economic value added

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

R'000	2017	2016
Direct economic value generated		
Interest income	14 934 427	13 411 673
Loan fee income	1 136 821	606 842
Transaction fee income	5 499 858	4 326 103
Dividend income	45	53
Net movement in financial instruments held at fair value through profit or loss	_	(1304)
Other income	54	101
Net impairment charge on loans and advances to clients	(5 121 177)	(4 400 637)
Total direct economic value generated	16 450 028	13 942 831
Economic value distributed		
To suppliers in payment of operating expenses	3 832 318	3 277 438
To employees	2 757 350	2 373 306
	6 589 668	6 587 612
Ordinary dividends	1 306 584	1 115 810
Preference dividends	15 719	16 064
Interest paid to providers of wholesale funding	891 029	1 006 684
Interest paid to savings clients	2 660 792	1 876 982
To providers of funds	4 874 124	4 015 540
Normal tax	1 464 296	1 294 697
Value added tax	464 002	477 808
Unemployment insurance	17 470	13 920
Skills development levies	23 765	20 319
Property rates and taxes	12 273	10 375
To the public purse	1 981 806	1 817 119
To the community	13 447	10 591
Total economic value distributed	13 459 045	11 493 994
Economic value retained for expansion and growth		
Retained income	2 484 627	2 096 363
Depreciation and amortisation	2 484 627 536 977	403 177
Deferred tax	(30 621)	(50 703)
Total economic value retained for expansion and growth	2 990 983	2 448 837

Annual Financial Statements

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

Statement of responsibility by the board of directors

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

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec Bank Holdings Limited. The annual financial statements. comprising the statement of financial position at 28 February 2017, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with IFRS and the Companies Act of South Africa, and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors' report.

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

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the

Certificate by the company secretary

companies to enable the directors to ensure that the financial statements comply with relevant legislation.

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

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

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

The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 115.

The annual financial statements set out on pages 120 to 181 were approved by the board of directors and signed on its behalf on 27 March 2017 by:

Riaan Stassen Chairman

Gerrie Fourie

Chief executive officer

I hereby confirm, in my capacity as company secretary of Capitec Bank Holdings Limited ('the group'), that for the year ended 28 February 2017, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up-to-date.

Yolande Mouton

Stellenbosch 27 March 2017

Audit committee report

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

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

The committee comprises of three independent non-executive directors. A Fourth non-executive member, Mr PJ Mouton resigned from the committee effective 21 February 2017. The committee met three times during the year with 100% attendance by members at the meetings.

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

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2017.

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Act.
- Ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2017 financial year.

- Approved the nature and extent of non-audit services that the external auditor may provide.
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm.
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.
- Reviewed the accounting policies and the group financial statements for the year ended 28 February 2017 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Act, 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 of information as disclosed in the integrated report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 27 March 2017, recommended the integrated report for approval by the board of directors.

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

Jean Pierre Verster
Chairman

27 March 2017

Directors' report

Year ended 28 February 2017

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

Nature of the business

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

The company holds 100% of its principal subsidiary, Capitec Bank Limited ('Capitec Bank'). Capitec Bank is a leading South African retail bank which focuses on essential banking services and provides innovative savings, transacting and unsecured lending products to individuals.

Review of operations

The operating results and the state of affairs of the company and the group are fully disclosed in the annual financial statements and commentary is provided in the chief financial officer's report, which is included in the integrated report.

Share capital

No ordinary shares were issued during the year ended 28 February 2017 bringing the number of shares in issue to 115 626 991 (February 2016: 115 626 991).

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

Dividends to shareholders

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

	2017	2016
Ordinary dividend		
(cents per share)		
Interim	450	375
Final	800	680
Preference dividend		
(cents per share)		
Interim	440.11	390.79
Final	433.89	404.21

The final ordinary dividend for 2017 was approved by the directors on 27 March 2017. In terms of the requirements of IFRS no accrual was made for this dividend.

Subsidiaries and associates

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

Directors and company secretary

Information relating to the directors and company secretary are included in chapter 6 of the integrated annual report.

During the year ended 28 February 2017, the following changes were effected to the board of directors:

- Stassen replaced MS du Pré le Roux as chairman of the board on 27 May 2016.
- · NS Mashiya was appointed to the board on 1 June 2016.

- · RJ Huntley resigned from the board on 21 September 2016.
- · G Pretorius retired from the board on 27 May 2016.

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

Post-balance sheet events

On 24 March 2017, we announced our investment in Cream Finance Holding Limited ('Creamfinance'). Creamfinance is an online technologydriven consumer loans company, offering multiple credit products across international markets. We will acquire an interest of 40% for €21 million in three tranches at nine-month intervals, subject to specific agreed performance measures being met.

Independent auditor's report

To the Shareholders of Capitec Bank Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited (the Company) and its subsidiaries (together the Group) as at 28 February 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Holdings Limited's consolidated and separate financial statements set out on pages 120 to 182 comprise:

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

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Overall group materiality

Overall group materiality: R262 million, which represents 5% of profit before tax.

Group audit scope

The group audit scope included the audit of Capitec Bank Holdings Limited and its consolidated entities, the only significant entity being Capitec Bank Limited.

Key Audit Matters

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

• Impairment provision of loans and advances to clients.

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

Materiality

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

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

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

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We included consolidated entities within our overall scope where such entities contributed to profit before tax or the total asset value of the group, with Capitec Bank Limited being the only significant entity. Entities included in our audit scope all operate in South Africa.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team. The group engagement team is responsible for the audit of all the entities within the group.

Overall group materiality	R262 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matter that relates to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company of the current period.

Impairment provision of loans and advances to clients

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

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

Identified impairments:

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

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

Incurred but unidentified impairments:

In addition to the above identified impairments, an estimate is made for impairments associated with those assets in the statement of financial position that are impaired, but for which objective evidence is not yet available. The impairment calculation utilises the results of the statistical analyses referred to above to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. The emergence period is determined based on the experience of the length of time that it takes for objective evidence to become apparent after the asset has become impaired and is considered to be a significant estimate.

Refer to note 7 and note 22 (pages 140 and 149) and note 29.1 for credit risk disclosure, as well as 2.4 (Accounting policy) and note 3 (Critical accounting estimates and judgements).

How our audit addressed the key audit matter

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

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

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

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

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

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

Other information

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

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- · Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- · Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Company's internal control.
- · Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- · Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or Company to cease to continue as a going concern.

- · Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers Inc.

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

Consolidated statement of financial position

As at 28 February 2017

		GRO	DUP	COMPANY	
R'000	Notes	2017	2016	2017	2016
Assets				-	
Cash, cash equivalents and money market funds	4	18 677 222	14 164 697	2 107	2 213
Held-to-maturity investments	5	5 326 724	3 634 710	_	-
Term deposit investments	6	6 600 749	7 188 781	_	_
Loans and advances to clients	7	39 204 980	35 759 860	_	1 386
Other receivables	8	1 126 839	217 372	7 643	8 082
Derivative assets	9	58 113	225 403	_	-
Available-for-sale financial assets	10	100 000	-	_	-
Current income tax asset		_	52 702	_	-
Interest in subsidiaries	11	_	-	5 815 560	5 843 661
Property and equipment	12	1 523 395	1 110 808	_	-
Intangibles	13	279 946	242 648	_	-
Deferred income tax asset	14	459 929	348 521	_	-
Total assets		73 357 897	62 945 502	5 825 310	5 855 342
Liabilities					
Deposits and bonds	15	55 582 271	47 940 148	_	-
Derivative liabilities	41, 42	45 598	-	_	-
Other liabilities	16	1 500 650	1 238 384	9 685	16 058
Current income tax liability		30 341	-	_	-
Provisions	17	81 024	107 905	_	-
Total liabilities		57 239 884	49 286 437	9 685	16 058
Equity					
Capital and reserves					
Ordinary share capital and premium	18	5 649 020	5 649 020	5 649 020	5 649 020
Cash flow hedge reserve	19	(11 736)	64 147	_	-
Retained earnings		10 329 731	7 772 004	15 607	16 370
Share capital and reserves attributable to ordinary shareholders		15 967 015	13 485 171	5 664 627	5 665 390
Non-redeemable, non-cumulative, non-participating preference share capital and premium	18	150 998	173 894	150 998	173 894
Total equity		16 118 013	13 659 065	5 815 625	5 839 284
Total equity and liabilities		73 357 897	62 945 502	5 825 310	5 855 342

Consolidated income statement

		GROUP Restated		COMPANY	
R'000	Notes	2017	2016	2017	2016
Lending and investment income	20	16 071 248	14 018 515	126	128
Interest income	20	14 934 427	13 411 671	126	128
Loan fee income	20	1 136 821	606 844	_	-
Lending and investment expenses	'	(4 194 266)	(3 573 720)	_	_
Interest expense	20	(3 551 821)	(2 883 666)	_	-
Loan fee expense	20	(642 445)	(690 054)	_	-
Net lending and investment income		11 876 982	10 444 795	126	128
Transaction fee income		5 499 858	4 326 103	_	-
Transaction fee expense		(1 576 435)	(1 305 890)	_	_
Net transaction income		3 923 423	3 020 213	_	_
Dividend income	21	45	53	1 322 304	1 131 864
Net impairment charge on loans and advances to clients	22	(5 121 177)	(4 400 637)	_	_
Net movement in financial instruments held at fair value through profit or loss	23	_	(1 304)	_	-
Other income		54	101	3 121	3 263
Income from operations		10 679 327	9 063 221	1 325 551	1 135 255
Operating expenses		(5 438 722)	(4 590 990)	(3 220)	(4 579)
Operating profit before tax	24	5 240 605	4 472 231	1 322 331	1 130 676
Income tax expense	25	(1 433 675)	(1 243 994)	_	(29)
Profit for the year		3 806 930	3 228 237	1 322 331	1 130 647
Earnings per share (cents)					
Basic	26	3 278	2 779		
Diluted	26	3 267	2 773		

Consolidated statement of other comprehensive income

		GROUP		COMPANY	
R'000	Notes	2017	2016	2017	2016
Profit for the year		3 806 930	3 228 237	1 322 331	1 130 647
Cash flow hedge recognised during the year	19	(211 809)	189 037	_	-
Cash flow hedge reclassified to profit and loss for the year	19	107 867	(111 163)	-	_
Total movement in cash flow hedge before tax		(103 942)	77 874	-	
Income tax relating to cash flow hedge	19	28 059	(20 762)	_	-
Other comprehensive income for the period net of tax	-	(75 883)	57 112	_	_
Total comprehensive income for the year		3 731 047	3 285 349	1 322 331	1 130 647

Consolidated statement of changes in equity

GROUP (R'000)	Notes	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings	Total
Balance as at 28 February 2015		5 649 071	207 175	7 035	5 700 459	11 563 740
Total comprehensive income for the year		_	-	57 112	3 228 237	3 285 349
Ordinary dividend		_	-	_	(1 115 810)	(1 115 810)
Preference dividend		-	_	-	(16 064)	(16 064)
Employee share option scheme: value of employee services		-	_	-	23 163	23 163
Shares acquired for employee share options at cost	35	-	_	-	(100 820)	(100 820)
Proceeds on settlement of employee share options	35	-	_	-	33 310	33 310
Tax effect on share options		-	_	-	18 402	18 402
Preference shares repurchased		-	(33 281)	-	1 127	(32 154)
Share issue expenses		(51)	_	-	-	(51)
Balance at 29 February 2016		5 649 020	173 894	64 147	7 772 004	13 659 065
Total comprehensive income for the year		_	_	(75 883)	3 806 930	3 731 047
Ordinary dividend		_	_	_	(1 306 584)	(1 306 584)
Preference dividend		_	_	_	(15 719)	(15 719)
Employee share option scheme: value of employee services		_	_	_	42 029	42 030
Shares acquired for employee share options at cost	35	_	_	_	(27 288)	(27 288)
Proceeds on settlement of employee share options	35	_	_	_	13 159	13 159
Tax effect on share options		_	_	_	45 991	45 991
Preference shares repurchased		_	(22 896)	_	(791)	(23 687)
Balance at 28 February 2017		5 649 020	150 998	(11 736)	10 329 731	16 118 014
Notes		18	18	19		

Consolidated statement of changes in equity (continued)

COMPANY (R'000)	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
Balance as at 28 February 2015	5 649 071	207 175	16 459	5 872 705
Total comprehensive income for the year	-	-	1 130 647	1 130 647
Ordinary dividend	-	-	(1 115 799)	(1 115 799)
Preference dividend	-	-	(16 064)	(16 064)
Preference shares repurchased	-	(33 281)	1 127	(32 154)
Share issue expenses	(51)	-	-	(51)
Balance at 29 February 2016	5 649 020	173 894	16 370	5 839 284
Total comprehensive income for the year	-	_	1 322 331	1 322 331
Ordinary dividend	-	_	(1 306 584)	(1 306 584)
Preference dividend	_	_	(15 719)	(15 719)
Preference shares repurchased	_	(22 896)	(791)	(23 687)
Balance at 28 February 2017	5 649 020	150 998	15 607	5 815 625
Notes	18	18		

Consolidated statement of cash flows

		GROUP		COMPANY	
			Restated		
R'000	Notes	2017	2016	2017	2016
Cash flow from operating activities					
Cash flow from operations	32	10 890 205	8 985 289	1 318 513	1 137 605
Income taxes paid	33	(1 387 990)	(1 297 792)	_	(29)
		9 502 215	7 687 497	1 318 513	1 137 576
Cash flow from investing activities					
Purchase of property and equipment	12	(783 054)	(579 854)	_	_
Proceeds from disposal of property and equipment		9 075	23 136	_	_
Purchase of intangible assets	13	(217 052)	(124 208)	_	_
Proceeds from sale of preference shares		_	_	28 102	29 083
Investment in term deposit investments	6	(7 011 184)	(8 183 090)	_	_
Redemption of term deposit investments	6	7 599 216	6 772 783	_	_
Acquisition of held-to-maturity investments	5	(7 619 880)	(4 182 192)	_	-
Redemption of held-to-maturity investments	5	5 927 866	547 482	_	_
Acquisition of available-for-sale financial assets	10	(100 000)	_	_	-
Acquisition of investments at fair value through profit or loss and money market unit trusts		5 925	(89 147)	_	_
Disposal of investments at fair value through profit or loss and money market unit trusts		_	2 747 179	_	_
		(2 189 088)	(3 067 911)	28 102	29 083
Cash flow from financing activities					
Dividends paid	34	(1 323 034)	(1 132 281)	(1 323 034)	(1 132 272)
Preference shares repurchased	18	(23 687)	(32 154)	(23 687)	(32 154)
Issue of institutional bonds and other funding		774 070	1 006 186	_	-
Redemption of institutional bond and other funding		(2 207 897)	(1 546 098)	_	_
Ordinary shares issued	18	_	(51)	_	(51)
Realised loss on settlement of employee share options less participants'			, ,		, ,
contributions	35	(14 129)	(67 510)	-	_
		(2 794 677)	(1 771 908)	(1 346 721)	(1 164 477)
Net increase in cash and cash equivalents		4 518 450	2 847 678	(106)	2 182
Cash and cash equivalents at the beginning of the year		14 151 917	11 304 239	2 213	31
Cash and cash equivalents at the end of the year	4	18 670 367	14 151 917	2 107	2 213

Notes to the annual financial statements

Year ended 28 February 2017

General information 1.

1.1 Nature of business

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

1.2 Review of operations

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

The group's earnings attributable to shareholders amounted to R3 806.9 million (2016: R3 228.2 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is in Chapter 6 and page 55 of the Integrated Report.

1.4 Group details

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

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

2. Accounting policies

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

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at fair value through profit or loss as well as available-for-sale securities carried at fair value through other comprehensive income.

Refer to Note 2.18 for new standards and interpretations not yet adopted.

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

2.1 Basis of consolidation

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

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

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

Currently the group does not have non-controlling interests as all subsidiaries are wholly-owned.

Cash, cash equivalents and money market funds

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with central banks, resale agreements, treasury bills and other eligible bills, amounts due from banks, non-bank money market investments, fixed and notice deposits with original maturities less than three months and short-term government securities. Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

2.3 Financial instruments

The group recognises financial assets on the statement of financial position once it becomes a party to the contractual terms of the particular financial instrument.

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

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

2.3.1. Financial assets:

(a) Financial instruments designated at fair value through profit or loss

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

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

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (2.14.4), and are included in the income statement.

(b) Held-to-maturity investments

Financial assets at amortised cost are held-to-maturity, non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity.

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

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

(c) Loans and receivables

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

- those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

They arise when the group provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are:

- (i) loans and advances to clients that are recognised when funds are advanced to the borrowers and are carried at amortised cost using the effective interest rate method;
- (ii) fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than three months, deposit investments with the contractual option to call the funds after a period longer than three months and deposits that have effective contractual notice periods greater than three months. The investments are made with the intention to hold them to maturity and collect the contractual cash flows. Fixed and term notice deposits are carried at amortised cost using the effective interest rate method; and

(d) Available-for-sale investment

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

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

2.3.2. Financial liabilities

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at fair value through profit or loss, are recognised initially at fair value, generally being their issue of proceeds net of transaction costs incurred and subsequently stated at amortised cost using the effective interest rate method.

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

2.3.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.3.4. Derivative financial instruments and hedging activities

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

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

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

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

The group designates certain derivatives as:

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

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

Treatment of hedges qualifying as cash flow hedges

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example: when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within interest expense. The gain or loss relating to the effective portion of cross currency interest rate swaps hedging foreign currency variable rate borrowings is recognised in the income statement within other operating expenses as well as interest expense. The gain or loss relating to the ineffective portion is recognised in the income statement within movement in financial instruments held at fair value through profit or loss. Refer to Note 42 for separate disclosure.

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 42. Movements on the hedging reserve in shareholders' equity are shown in Note 19.

2.3.5. Resale agreements

Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of less than three months are included under cash and cash equivalents. The difference between the purchase and sales' price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

2.4 Impairment of advances

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

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

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

- (a) A breach of contract, such as a default or delinquency in interest or principal payments. In this regard, instalments past due date are considered a breach of contract.
- (b) Historical loss experience of groups of financial assets with similar repayment terms.
- (c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
 - · adverse changes in the payment status of borrowers in the group; or
 - · national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

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

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

2.4.1. Identified impairment

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

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

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

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

- · Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- · These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- · Clients in arrears by more than 90 days are handed over for collection and written off. The estimated recoveries on term loans discounted at the contractual rates are recognised in gross loans and advances.
- · Upon write-off, the accrual of interest income on the original term of the advance is discontinued.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default (LGD), is taken into account in calculating the impairment allowance.

Loans and advances with outstanding balances that would otherwise have been reflected as past due are included in loans and advances not past due, due to renegotiated payment terms. The renegotiated loans are subject to continuous individual or collective impairment assessment. Loans that were past due and have been renegotiated within the past six months are separately disclosed and are subject to stricter impairment assessment than loans renegotiated more than six months ago. Past due renegotiated loans cease to be disclosed separately if they are up-to-date six months after being rescheduled. If a rescheduled loan goes into arrears, it forms part of the loans in arrears classification.

2.4.2. Incurred but unidentified impairment

In addition to the impairment estimated for assets with recognised objective evidence of impairment, an estimate is made for impairments associated with those assets in the statement of financial position that are impaired, but for which objective evidence is not yet available.

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

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

2.4.3. Loan write-offs

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

2.5 Interest-free loans granted

Interest-free group loans with no written terms are managed as part of the company's investment in subsidiaries and are carried at cost net of impairment.

2.6 Current tax

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

2.7 Deferred tax

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

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

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

2.8 Property and equipment

Land and buildings comprise a sectional title development right. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

3 - 5 years Banking application hardware Automated teller machines 10 years 3 - 5 years Computer equipment Office equipment 5 - 8 years Motor vehicles 5 years Buildings 25 years

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

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

2.9 Computer software

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

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

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

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

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

2.10 Impairment of non-financial assets

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

2.11 Share capital

2.11.1. Categories of share capital

Authorised share capital consists of:

- ordinary shares;
- · non-redeemable, non-cumulative, non-participating preference shares; and
- · compulsorily, convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares.

2.11.2. Share issue costs

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

2.11.3. Dividends declared

Dividends on ordinary shares and preference shares that are classified as equity are recognised in equity in the period in which they have been approved by the group's directors. Dividends for the year that are declared after the statement of financial position date are dealt with in the directors' report.

2.11.4. Treasury shares

Where the company or other members of the group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

2.11.5. Unissued shares

At the annual general meeting an amount of 5% (2016: 5%) of the issued ordinary share capital at the time of the meeting as well as all unissued non-redeemable, non-cumulative, non-participating preference shares and all compulsorily, convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting.

2.12 Employee benefits

2.12.1. Pension obligations

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

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

2.12.2. Share-based compensation

The group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to retained income in the statement of changes in equity over the remaining vesting period.

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

2.12.3. Performance incentive scheme

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

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

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

2.13 Foreign currency translation

2.13.1. Functional and presentation currency

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

2.13.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into Rand at the reporting period-end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

2.14 Revenue recognition

2.14.1. Interest income and expense

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

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

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.14.2. Loan fee income and loan fee expense

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

2.14.3. Transaction income and expenses

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

2.14.4. Dividend income

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

2.15 Segment reporting

The identification of reportable segments are determined based on a consideration of products and services, organisational structures, geographical areas, economic and regulatory environments and the separable nature of activities or conversely inherent inter-connectedness and whether these meet the criteria for aggregation.

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

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

2.16 Leases

2.16.1. Where a group company is the lessee

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

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

2.16.2. Where a group company is the lessor

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

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

- · Amendments to IFRS 10 and IAS 28 (effective 1 March 2016)
- Amendment to IFRS 11 Joint arrangements (effective 1 March 2016)
- IFRS 14 Regulatory deferral accounts (effective 1 March 2016)
- Amendments to IAS 1 Presentation of Financial Statements (effective 1 March 2016)
- · Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation (effective 1 March 2016)
- · Amendments to IAS 16 (effective 1 March 2016)
- Amendment to IAS 27 Equity method in separate financial statements (effective 1 March 2016)
- Annual Improvements to IFRS's 2014 Cycle (1 March 2016)

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

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

Certain effective new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2017 or later periods but which the group has not early adopted, as follows:

- Amendment to IAS 12 Income taxes (effective 1 March 2017)
- Amendment to IAS 7 Cash flow statements (effective 1 March 2017)
- IFRS 15 Revenue from contracts with customers (effective 1 March 2018)
- IFRS 9 Financial instruments (effective 1 March 2018)
- Amendment to IFRS 9 Financial instruments (effective 1 March 2018)
- Amendment to IFRS 2 Share-based payment (effective 1 March 2018)
- Amendment to IFRS 7 Financial Instrument Disclosures (effective 1 March 2018)
- IFRS 16 Leases (effective 1 March 2019)
- IFRIC 22 Foreign currency transactions and advance consideration (effective 1 March 2018)
- · IAS 12 Amendment to IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses (effective 1 March 2017)

Management is in the process of assessing the impact of these amendments and standards on the reported results of the group and the company. The most significant of these new and proposed accounting requirements for the group from 1 March 2018 relating to IFRS 9 and from 1 March 2019 relating to IFRS 16.

The IASB has issued IFRS 9 which replaced IAS 39 for financial years commencing 1 January 2018 and which the group will apply for the group's financial year ending 28 February 2019. The IASB developed a new expected credit loss (ECL) model in terms of IFRS 9.

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

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

IFRS 16 relating to leases, was issued in January 2016 and applies to our reporting period beginning on 1 March 2019. Under the current IAS 17, lessees are required to make a distinction between a finance lease and an operating lease. IFRS 16 will require the group to recognise a lease liability reflecting future lease payments and a 'right-of-use assets' for all the group's applicable lease contracts.

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Impairment losses on loans and advances

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experienced.

All impaired loans and advances are reviewed on a monthly basis and any changes to the amount and timing of the expected future cash flows discounted at the original effective interest rate, compared to previous estimates will result in either a charge or release for impairment of loans and advances in the income statement.

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to Note 2.4 for the accounting policy regarding the impairment of advances and Note 29.1 for credit risk management.

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

R'000	2017	2016
Expected default rates increase by 5%	63 001	55 388
Expected default rates decrease by 5%	(63 592)	(55 610)

	GR	OUP	COMPANY	
R'000	2017	2016	2017	2016
Cash, cash equivalents and money market funds				
Cash on hand ⁽¹⁾	3 091 691	2 648 884	-	-
Bank balances	12 172 697	9 633 755	2 107	2 213
Resale agreements ⁽²⁾	756 937	805 552	_	-
Treasury bills	726 936	248 329	_	-
Central bank balances				
Debentures	1 001 323	_	_	-
Mandatory reserve deposits with central bank ⁽³⁾	920 783	815 397	_	-
Cash and cash equivalents	18 670 367	14 151 917	2 107	2 213
Money market unit trusts ⁽⁴⁾	6 855	12 780	_	-
Total cash, cash equivalents and money market funds	18 677 222	14 164 697	2 107	2 213
Maximum exposure to credit risk	18 677 222	14 164 697	2 107	2 213
Current	18 677 222	14 164 697	2 107	2 213

⁽¹⁾ Cash-on-hand is non-interest bearing.

4.

5. Held-to-maturity investments

Interest-bearing instruments(1)

Balance at the beginning of the year	3 634 710	-	-	-
Additions	7 619 880	4 182 192	-	-
Maturities	(5 927 866)	(547 482)	-	-
Total investments at amortised cost ⁽²⁾	5 326 724	3 634 710	_	_
Maximum exposure to credit risk	5 326 724	3 634 710	_	_
Current	5 326 724	3 634 710	-	-

¹⁰ Interest-bearing instruments are unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises South African National Treasury bills (treasury bills), 83% (2016: 89%) of the balance and investments in Negotiable Certificates of Deposits issued by various banks, 17% (2016: 11%) of the balance.

The difference between the purchase and resale price of resale agreements with the counterparty is treated as interest.

Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a one-month period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not considered as available for normal cash planning purposes. 70% of the balance is available without requiring

prior regulatory approval.

Money market unit trusts are liquid assets and are taken into consideration for cash planning purposes.

The Liquid Asset Requirement of R1 843.5 million (2016: R1 630.8 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills. ${\it The intention is to hold all treasury bills to full maturity}.$

		GRO	IUP	COMPA	NY
	R'000	2017	2016	2017	2016
6.	Term deposit investments				
	Term deposit investments				
	Balance at the beginning of the year	7 188 781	5 778 474	_	-
	Additions	7 011 184	8 183 090	_	-
	Disposals	(7 599 216)	(6 772 783)	_	_
	Total term deposit investments ⁽¹⁾	6 600 749	7 188 781	_	_
	Maximum exposure to credit risk	6 600 749	7 188 781	_	_
	Current	6 600 749	7 188 781	-	

⁽i) All balances are due by banks and have original maturity dates of more than three months but contractually less than one year. Investments comprise term-to-notice and fixed-term instruments. (Refer to Note 29.1 for ratings).

7. Loans and advances to clients

Luaiis and advances to chefits				
Maturity analysis				
Demand to one month	1 995 288	1 954 994	_	294
One to three months	2 636 689	2 189 002	_	26
Three months to one year	10 728 106	8 742 187	_	52
More than one year	30 494 018	28 586 451	_	1 014
Total	45 854 101	41 472 634	-	1 386
Loan origination fees	(718 744)	(581 169)	_	_
Gross loans and advances	45 135 357	40 891 465	_	1 386
Term loans and credit facility	44 545 481	40 891 465	-	1 386
Credit card	589 876		_	_
Allowance for impaired loans and advances	(5 930 377)	(5 131 605)	_	_
Net loans and advances to clients ⁽¹⁾⁽²⁾	39 204 980	35 759 860	_	1 386
Analysis of net loans and advances by status				
Gross	39 609 964	35 233 859	_	1 386
Impairment	(3 024 728)	(2 697 102)	-	_
Current ⁽³⁾	36 585 236	32 536 757	_	1 386
Provision %	7.6	7.7	-	-
Gross	1 087 996	1 817 885	_	_
Impairment	(166 384)	(287 644)	_	_
Current – rescheduled from current not rehabilitated ⁽⁹⁾	921 612	1 530 241	_	_
Provision %	15.3	15.8		
Gross	1 582 527	1 542 283	_	_
Impairment	(820 757)	(758 244)	_	_
Current – rescheduled from arrears not rehabilitated ⁽⁴⁾⁽⁹⁾	761 770	784 039	-	-
Provision %	51.9	49.2		
Gross	2 854 870	2 297 438	_	_
Impairment	(1 918 508)	(1 388 615)	_	_
Arrears ⁽⁵⁾	936 362	908 823		_
Provision %	67.2	60.4		

	GRO	OUP	COMPANY	
R'000	2017	2016	2017	2016
Loans and advances to clients (continued)				
Credit quality of loans and advances ⁽⁶⁾⁽⁷⁾				
Lowrisk	10 901 145	8 734 139	_	_
Medium risk	22 398 860	21 451 881	_	-
High risk	7 397 955	6 865 724	_	_
Current loans	40 697 960	37 051 744	_	_
Ageing of gross arrears	,			
< 60 days	2 365 013	1 971 940	_	_
60 – 90 days	489 857	325 498	_	_
	2 854 870	2 297 438	_	-
Movement on impairment allowance				
Unidentified impairments	3 742 990	2 701 059	_	-
Identified impairments	1 388 615	1 156 311	_	-
Opening balance	5 131 605	3 857 370	_	_
Unidentified impairments	268 879	1 041 931	_	_
Identified impairments	529 893	232 304	_	-
Movement	798 772	1 274 235	_	_
Unidentified impairments	4 011 869	3 742 990	_	_
Identified impairments	1 918 508	1 388 615	_	_
Closing balance	5 930 377	5 131 605	_	-
Exposure to credit risk				
Loans and advances to clients	45 854 101	41 472 634	_	1 386
Conditionally revocable retail loan commitments ⁽⁸⁾	457 610	203 515	_	_
Maximum exposure to credit risk	46 311 711	41 676 149	_	1 386

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

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

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

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

The definition of arrears and past due loans and advances is the same. Past due loans and advances reflect all a client's outstanding balances, where one or more instalments (or part of an instalment [more than 5% thereof]) (on any of the client's loans) remains unpaid, measured against the contractual payment date, that is from one day past the contractual payment date to 90 days. The definition excludes loans with a handed over status which are written off, as are all outstanding client balances with instalments unpaid more than 90 days.

⁽⁶⁾ The credit quality of gross current loans is based on probability of default (PD) rates.

The lower-risk clients qualify for longer-term, lower interest rate loan combinations, while the higher-risk clients are limited to shorter-term, higher interest rate products. The interest rate on a loan can be decreased by selecting a term shorter than the maximum term for which the client qualifies.

[©] Conditionally revocable retail loan commitments totalling R457.6 million (2016: R203.5 million) are not included in the maturity analysis. These commitments are as a result of undrawn credit facility and credit card amounts. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 52.1% (February 2016: 34.6%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital change in terms of the standardised approach for credit risk.

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

	GRO	IUP	COMPA	COMPANY	
R'000	2017	2016	2017	2016	
Other receivables					
Deposits ⁽¹⁾	34 388	28 707	_	_	
Accrued income	955 171	93 044	7 321	7 778	
SARB settlement balance	587 540	-	_	-	
Net insurance receivable ⁽²⁾	252 360	-	_	-	
Other receivables	115 271	93 044	_	-	
Prepayments ⁽³⁾	137 280	95 621	322	304	
Total other receivables	1 126 839	217 372	7 643	8 082	
Current	1 124 701	215 183	7 643	8 082	
Non-current	2 138	2 189	_	_	
Maximum exposure to credit risk	1 126 839	217 372	7 643	8 082	

Deposits include the amount receivable from the insurer which was initially paid to subscribe for the specific class of preference shares issued by the insurer to the group for the first and third party cell captive.

9. **Derivative assets**

8.

Derivatives ⁽¹⁾	58 113	225 403	-	_
Current	54 900	6 214	_	_
Non-current	3 213	219 189	_	_

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

10. Available-for-sale financial assets

Unlisted securities(1)

Additions	100 000	-	-	_
Total available-for-sale financial assets	100 000	-	-	_

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

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

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

	GRO)UP	COMPANY		
R'000	2017	2016	2017	2016	
Interest in subsidiaries					
Interest in subsidiaries					
Investment in unlisted subsidiaries at cost ⁽¹⁾	_	-	5 804 426	5 827 322	
Loans to subsidiaries ⁽²⁾	_	-	11 134	16 339	
	_	_	5 815 560	5 843 66	
Subsidiaries	Domicile	Holding	Nature of busing	ness	
Capitec Bank Limited	South Africa	100%	Banking		
Keynes Rational Corporate Services Proprietary Limited	South Africa	100%	Dormant		
Capitec Properties Proprietary Limited	South Africa	100%	Property		
Keymatrix Proprietary Limited	South Africa	100%	Dormant		
Capitec Bank Holdings Share Trust	South Africa	-	Share incentive	trust	
 All holdings are in the ordinary and preference share capital of the subsidiaries. Interest-free group loans with no written terms are managed as part of the company 			Office		
R'000	Land and buildings	Computer equipment	equipment and vehicles	Tota	
Property and equipment					
2017					
Opening net book value	98 606	531 961	480 241	1 110 80	
Additions	11 746	439 130	332 178	783 05	
Disposals	-	(11 102)	(919)	(12 02	
Depreciation charge	(730)	(187 796)	(169 920)	(358 44	
Net book value at the end of the year	109 622	772 193	641 580	1 523 39	
Cost	110 899	1 629 492	1 529 146	3 269 53	
Accumulated depreciation	(1 277)	(857 299)	(887 566)	(1 746 14	
Net book value at the end of the year	109 622	772 193	641 580	1 523 39	
Non-current	109 622	772 193	641 580	1 523 39	
2016					
Opening net book value	31 294	402 709	414 755	848 75	
Additions	67 859	304 958	207 037	579 85	
Disposals	_	(9 337)	(2 821)	(12 15	
Depreciation charge	(547)	(166 369)	(138 730)	(305 64	
Net book value at the end of the year	98 606	531 961	480 241	1 110 80	
Cost	99 153	1 228 916	1 202 715	2 530 78	
Accumulated depreciation	(547)	(696 955)	(722 474)	(1 419 97	
Net book value at the end of the year	98 606	531 961	480 241	1 110 80	
Non-current	98 606	531 961	480 241	1 110 808	

	GRO	UP	COMPANY	
R'000	2017	2016	2017	2016
Intangible assets				
Computer software ⁽¹⁾				
Cost	604 969	523 652	_	-
Accumulated amortisation	(362 321)	(284 777)	_	-
Opening net book value	242 648	238 875	-	-
Additions	217 052	124 208	_	-
Scrappings	(1 223)	(22 904)	_	-
Amortisation charge	(178 531)	(97 531)	_	-
Net book value at the end of the year	279 946	242 648	_	-
Cost	782 100	604 969	_	_
Accumulated amortisation	(502 154)	(362 321)	_	_
Net book value at the end of the year	279 946	242 648	_	_
Non-current	279 946	242 648	_	_

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14. Deferred income tax asset

R'000	Provisions, accruals and share-based payments	Cash flow hedge	Capital allowances	Prepayments	Total
2017					
Balance at the beginning of the year	423 219	(23 595)	(37 500)	(13 603)	348 521
Income statement charge	35 944	_	(1 994)	(3 329)	30 621
Debited directly to equity	52 728	_	_	_	52 728
Debited to equity through other comprehensive income	_	28 059	_	_	28 059
Balance at the end of the year ⁽¹⁾	511 891	4 464	(39 494)	(16 932)	459 929
2016					
Balance at the beginning of the year	361 772	(2 833)	(35 703)	(11 086)	312 150
Income statement charge	55 017	-	(1 797)	(2 517)	50 703
Debited directly to equity	6 430	-	-	_	6 430
Debited to equity through other comprehensive income	_	(20 762)	-	_	(20 762)
Balance at the end of the year ⁽¹⁾	423 219	(23 595)	(37 500)	(13 603)	348 521

	GRO	UP	COMPANY	
R'000	2017	2016	2017	2016
Current	95 436	237 868	_	-
Non-current	364 493	110 653	_	-

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2016: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.

	GR	GROUP		COMPANY	
R'000	2017	2016	2017	2016	
Deposits and bonds					
By maturity					
Within one month	31 059 904	25 042 666	_	-	
One to three months	2 855 050	3 350 970	_	_	
Three months to one year	8 218 385	6 770 557	_	-	
More than one year	13 448 932	12 775 955	_	-	
Deposits and bonds ⁽¹⁾	55 582 271	47 940 148	-	-	
By nature					
Retail funding					
Retail savings	30 116 518	24 152 425	_	-	
Retail fixed deposits	17 922 702	13 634 429	_	_	
	48 039 220	37 786 854	_	-	
Institutional bond and other funding ⁽³⁾					
Subordinated debt – unlisted bonds	755 921	1 008 466	_	_	
Subordinated debt – listed bonds ⁽²⁾	1 929 271	1 928 779	_	_	
Listed senior bonds ⁽²⁾	3 169 928	4 351 702	_	-	
Unlisted negotiable instruments	863 812	1 296 456	_	_	
Wholesale ⁽⁵⁾	824 119	1 411 592	_	_	
SARB settlement balance	-	156 299	_	-	
	7 543 051	10 153 294	_	-	
	55 582 271	47 940 148	_	_	
Amounts payable on maturity of the funding ⁽⁴⁾	60 066 125	52 253 412	_		

Subordinated debt analysis

15.

Description	Nominal amount	Issue date	Term	Rate
Subordinated debt – unlisted bonds – floating rate	R100 million	2010/08/30	12-year	
First seven years				3-month JIBAR plus 5.75%
 Last five years if not called by the bank 				3-month JIBAR plus 7.00%
Subordinated debt – unlisted bonds – floating rate	R100 million	2010/09/21	12-year	
First seven years				3-month JIBAR plus 5.75%
Last five years if not called by the bank				3-month JIBAR plus 7.00%
Subordinated debt – unlisted bonds – floating rate	R44 million	2011/10/31	7-year	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	2012/07/06	7-year	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	2011/09/06	7-year	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	2012/02/01	7-year	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	2012/02/01	7-year	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	2012/08/23	7-year	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	2012/08/23	7-year	3-month JIBAR plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	2012/12/14	7-year	3-month JIBAR plus 4.49%

⁽¹⁾ All deposits and bonds are unsecured.

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

⁽²⁾ Comprises notes listed on Capitec Bank's DMTN programme registered on the JSE's interest rate board.

⁽S) Institutional bond and other funding issued at variable rates is hedged through interest rate swap agreements as set out in Notes 19 and 42. The nominal value of hedged funding consists of:

⁽a) The difference between the amounts payable on maturity and the deposits and bonds at amortised cost relates to future finance cost.
(b) Included in wholesale funding is a foreign denominated loan valued at R343.5 million denominated in USD. Refer to Note 19 for further disclosure of the cash flow hedge reserve

		GRO	UP	COMPANY	
	R'000	2017	2016	2017	2016
16.	Other liabilities				
	Trade payables	562 811	474 918	33	4 487
	Dividends payable	9 652	10 382	9 652	10 382
	Accruals	711 154	656 806	_	1 189
	Share appreciation rights (Note 40)	217 033	96 278	-	-
	Total other liabilities	1 500 650	1 238 384	9 685	16 058
	Current	1 125 325	922 459	9 685	16 058
	Non-current	375 325	315 925	_	
17.	Provisions				
	Performance incentive scheme ⁽¹⁾				
	Balance at the beginning of the year	107 905	64 268	_	-
	Addition	44 053	77 884	_	-
	Used during the year	(70 934)	(34 247)	_	-
	Balance at the end of the year	81 024	107 905	_	_
	Non-current	81 024	107 905	_	_

⁽⁹⁾ Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a three-year period. The bonuses to be paid out in the 2019 and 2020 financial years are included in provisions. The bonus to be paid in the 2018 financial year is included in accruals.

	GROUP		COMPANY	
R'000	2017	2016	2017	2016
Share capital and premium				
Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	5 000	5 000	5 000	5 000
Non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss absorbent preference shares (Conversion)(1)				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss absorbent preference shares (Write-off)(1)				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
	8 000	8 000	8 000	8 000
Issued ⁽²⁾				
115 626 991 (2016: 115 626 991) shares of R0.01 each at par	1 156	1 156	1 156	1 156
Share premium	5 647 864	5 647 864	5 647 864	5 647 864
Ordinary share capital and premium	5 649 020	5 649 020	5 649 020	5 649 020
1 672 844 (2016: 1 926 504) shares of R0.01 each at par	17	19	17	19
Share premium	150 981	173 875	150 981	173 875
Non-redeemable, non-cumulative, non-participating preference share				
capital and premium ⁽³⁾	150 998	173 894	150 998	173 894
Total issued share capital and premium(3)(4)(5)	5 800 018	5 822 914	5 800 018	5 822 914

This class complies with bank regulatory requirements that capital instruments should be loss absorbent.

19. Cash flow hedge reserve

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

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

All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 253 660 (2016: 368 707) preference shares with a value of R22.9 million (par and premium) (2016: R33.3 million) were repurchased and cancelled during the year. This was done as they no longer qualified as regulatory capital in terms of the regulations relating to banks.

The preference shares carry a coupon rate of 83.33% of the prime rate on a face value of R100 per share. The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 41.69% (2016: 32.85%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

⁽⁴⁾ Refer to Note 35 for detail regarding the buy-back of shares to settle share options. During the year a loss of R14.1 million (R10.15 million after tax) (2016: R67.5 million, R49.1 million after tax) was realised on settlement of share options as reflected in the statement of changes in equity.

^{5 781 350 (2016: 5 781 350)} of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares (including the compulsory convertible and write-off classes) that were placed under the control of the directors until the next annual general meeting remained at year-end.

	GRO	OUP Restated	COMPANY	
R'000	2017	2016	2017	2016
Net lending and investment income				
Interest income				
Loans and advances to clients	12 389 250	11 289 834	_	-
Loan origination fees ⁽¹⁾	836 080	938 635	_	-
Non-bank money market placements	178	315	126	128
Money market funds and term deposit investments	1 288 157	924 659	_	_
Treasury bills	30 986	13 695	_	_
Bank balances	10 095	2 311	_	_
Resale agreements	18 331	7 920	_	-
Debentures	4 116	3 652	_	_
Interest-bearing instruments	357 234	230 652	_	_
Total interest income ⁽¹⁾⁽²⁾	14 934 427	13 411 673	126	128
Loan fee income				
Monthly service fee	874 938	606 842	_	-
Net insurance income	261 883	_	_	-
Total loan fee income ⁽¹⁾	1 136 821	606 842	_	-
Total lending and investment income	16 071 248	14 018 515	_	-
Interest expense				
Retail savings	(1 373 051)	(950 439)	_	-
Retail fixed deposits	(1 287 741)	(926 543)	_	-
Other unlisted wholesale	(95 045)	(133 212)	_	-
Subordinated debt	(338 860)	(342 477)	_	-
Domestic Medium Term Note	(352 218)	(398 829)	_	-
Negotiable deposits	(102 844)	(130 911)	_	-
Other	(2 062)	(1 255)	_	-
Total interest expense	(3 551 821)	(2 883 666)	_	-
Loan fee expense	(642 445)	(690 054)	_	_
Total lending and investment expense	(4 194 266)	(3 573 720)	_	_
Net lending and investment income	11 876 982	10 444 795	126	128

⁽¹⁾ Reclassification of 2016:

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

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

The impact of this reclassification for 2016 is presented as follows:

R'000	Restated 2016	Reported previously	Impact
Total interest income	13 411 673	12 473 038	938 635
Total loan fee income	606 842	1 545 477	(938 635)
Total lending and investment income	14 018 515	14 018 515	

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

			GROUP		COMPANY	
	R'000	2017	2016	2017	2016	
L.	Dividend income					
	Ordinary dividends	45	53	1 306 585	1 115 800	
	Preference dividends	_	-	15 719	16 064	
	Dividend income	45	53	1 322 304	1 131 864	
•	Net impairment charge on loans and advances to clients					
	Bad debts written off	5 447 481	3 980 854	_	-	
	Movement in impairment allowance ⁽¹⁾	798 772	1 274 235	_	-	
	Bad debts recovered	(1 125 076)	(854 452)	_	-	
	Net impairment charge	5 121 177	4 400 637	_	-	
	(1) The movement in impairment allowance is disclosed in Note 7.					
	Net movement in financial instruments held at fair value					
	Change in fair value due to risk factors	_	(1 304)	_	-	
	Financial assets held at fair value through profit or loss	_	(1 304)	_	_	

	GROUP		COMPANY	
R'000	2017	2016	2017	2016
Operating profit before tax				
The following items are included in operating profit before tax:				
Loss/(Profit) on disposal of equipment	2 946	(10 978)	_	_
Loss on scrapping of intangibles	1 223	22 904	_	_
Depreciation on fixed assets	358 446	305 646	_	_
Amortisation of computer software	178 531	97 531	_	_
	541 146	415 103	_	_
Advertising and marketing	187 752	170 360	1 772	1 222
Bank charges	230 621	206 121	(15)	0
Consumables	191 905	166 086	257	138
Communications	177 751	139 702	_	-
Operating lease rentals				
Land and buildings	404 133	343 886	_	-
Office equipment	4 574	2 188	_	-
	408 707	346 074	_	_
Income from subletting	(3 409)	(2 707)	_	-
Auditors' remuneration				
Audit fees – current year	3 979	4 116	3	2
Other services	1 034	464	_	-
	5 013	4 580	3	2
Employee costs				
Salaries and bonus costs	2 537 036	2 228 554	_	-
Equity-settled share-based payment	42 030	23 163	_	-
Cash-settled share appreciation rights	147 797	102 512	_	-
Social security cost	71 722	53 316	_	-
Training cost	40 871	57 613	_	-
Training refund	(4 724)	(4 163)	_	-
	2 834 732	2 460 995	_	_

	GRO	UP	COMP	ANY
R'000	2017	2016	2017	2016
Income tax expense				
Current tax	1 464 296	1 294 697	_	29
Deferred tax	(30 621)	(50 703)	_	-
Income tax expense	1 433 675	1 243 994	_	29
Effective tax rate	27	28	_	_
The tax on the profit before tax differs from the theoretical amount that would arise	e using the basic	normal company	tax rate as follow	ws:
Operating profit before tax	5 240 605	4 472 231	1 322 331	1 130 676
Tax calculated at a tax rate of 28%	1 467 369	1 252 225	370 253	316 589
Adjustments for prior periods	(881)	(586)	_	29
Income not subject to tax ⁽¹⁾	(1 787)	(2 026)	(370 245)	(316 922)
Expenses not deductible for tax purposes ⁽²⁾	344	512	(8)	333
Allowances not in income statement ⁽³⁾	(31 295)	(5 883)	_	-
Movement in unutilised tax losses	(75)	(248)	_	-
Income tax expense	1 433 675	1 243 994	_	29
Estimated tax losses at year-end available for utilisation against future taxable				
income	10 629	10 895	_	_
Net calculated tax losses carried forward	10 629	10 895	-	_
Tax relief calculated at current tax rates	2 976	3 051	_	_

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

R'000	2017	2016
dernings per share attributable to ordinary shareholders to profit after tax deference dividend count on repurchase of preference shares to profit after tax attributable to ordinary shareholders dighted average number of ordinary shares in issue (thousands) ustment for: dercise of share options dighted average number of ordinary shares for diluted earnings per share (thousands)		
Net profit after tax	3 806 930	3 228 237
Preference dividend	(15 719)	(16 064)
Discount on repurchase of preference shares	(791)	1 127
Net profit after tax attributable to ordinary shareholders	3 790 420	3 213 300
Weighted average number of ordinary shares in issue (thousands)	115 627	115 627
Adjustment for:		
Adjustment for: Exercise of share options	377	238
	377 116 004	238 115 865
Exercise of share options	· · · · · · · · · · · · · · · · · · ·	

⁽¹⁾ Basic earnings per share are calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the

Headline earnings per share attributable to ordinary shareholders 27.

Net profit attributable to ordinary shareholders	3 790 420	3 213 300
Non-headline items		
Loss/(profit) on disposal of property and equipment	2 946	(10 978)
Income tax charge – property and equipment	(825)	3 074
Derecognition of intangible assets	1 223	22 904
Income tax charge – intangible assets	(342)	(6 413)
Headline earnings	3 793 422	3 221 887
Basic headline earnings per share (cents)	3 281	2 787
Diluted headline earnings per share (cents)	3 270	2 781

⁽²⁾ To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity shareholders is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.

28. Dividends

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

R'000	DPS	Rand	Declared	LDT	Date paid
2017					
Ordinary dividend					
Interim	450	520 321	26 Sep 2016	11 Oct 2016	17 Oct 2016
Final ⁽¹⁾	800	925 016	27 Mar 2017	18 Apr 2017	24 Apr 2017
Preference dividend					
Interim	440.11	8 464	31 Aug 2016	20 Sep 2016	26 Sep 2016
Final	433.89	7 258	28 Feb 2017	14 Mar 2017	20 Mar 2017
2016					
Ordinary dividend					
Interim	375	433 601	28 Sep 2015	16 Oct 2015	26 Oct 2015
Final	680	786 264	29 Mar 2016	15 Apr 2016	25 Apr 2016
Preference dividend					
Interim	390.79	8 277	28 Aug 2015	17 Sep 2015	28 Sep 2015
Final	404.21	7 820	29 Feb 2016	16 Mar 2016	29 Mar 2016

⁽⁰⁾ The directors declared a final dividend of 800 cents per share (2016: 680 cents per share) in respect of 2017 on 27 March 2017 amounting to a dividend of R925 million (2016: R786.3 million). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2018, which is in line with recommended accounting practice.

29. Financial risk management

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

Notes 29 should be read with the sections in Chapter 7 of the integrated annual report and the sections marked as audited.

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

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

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

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

29.1 Credit risk

Retail lending

The group grants retail unsecured loans. Exposure to single-name concentration credit risk is low due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book. Exposure to systemic credit risk is regarded as being potentially higher due to the demographic credit characteristics of the client base. Measures taken by the group to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the credit and risk committees. No security is obtained for loans and advances, and accordingly the entire balance as per the statement of financial position is exposed to credit risk.

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

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

The maximum capital advanced in terms of any one loan is R250 000 (2016: R250 000). At the statement of financial position date the number of outstanding loans was 1 569 113 (2016: 1 485 081).

Investments

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents, interest-bearing instruments and term deposit investments (Notes 4, 5 and 6). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the credit committee, monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's.

29.1 Credit risk (continued)

At the statement of financial position date the international long-term credit ratings, using Moody's ratings, were as follows:

						Total carrying
<u>R</u> '000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	amount
2017						
Cash on hand	4	_	3 091 691	_	_	3 091 691
Bank balances ⁽¹⁾	4	_	12 170 493	_	2 204	12 172 697
Resale agreements ⁽⁴⁾	4	_	_	_	756 937	756 937
Central bank balances(3)	4	_	1 922 106	_	_	1 922 106
Treasury bills (< 3 months)	4	_	726 936	_	_	726 936
Money market funds ⁽²⁾	4	_	_	_	6 855	6 855
Treasury bills (> 3 months)	5	_	4 446 262	_	_	4 446 262
Negotiable certificates of deposit (> 3 months)	5	452 973	427 489	-	_	880 462
Term deposit investments ⁽⁵⁾	6	1 568 958	5 031 791	-	_	6 600 749
Accrued income	8	-	587 540	_	367 631	955 171
Derivative assets	41, 42	56 168	1 945	_	_	58 113
		2 078 099	28 406 253	_	1 133 627	31 617 979
2016						
Cash on hand	4	_	2 648 884	_	_	2 648 884
Bank balances ⁽¹⁾	4	_	9 631 419	_	2 336	9 633 753
Resale agreements ⁽⁴⁾	4	-	-	_	805 552	805 552
Central bank balances ⁽³⁾	4	-	815 397	-	-	815 397
Treasury bills (< 3 months)	4		248 329	-	-	248 329
Money market funds ⁽²⁾	4	-	-	-	12 780	12 780
Treasury bills (> 3 months)	5	-	3 218 060	-	-	3 218 060
Negotiable certificates of deposit (> 3 months)	5	150 650	266 000	-	-	416 650
Term deposit investments ⁽⁵⁾	6	1 933 518	4 888 710	-	366 553	7 188 781
Accrued income	8	-	-	-	93 044	93 044
Derivative assets	41, 42	213 695	11 708	_	_	225 403
		2 297 863	21 728 507	_	1 280 265	25 306 633

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

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

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

As part of the resale agreements, the group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to R756.9 million (2016: R824.1 million) of which Rnil have been sold or repledged. The resale agreements indicated as 'unrated' was secured by negotiable instruments of banks regulated and domiciled in South Africa and carry international ratings of BBB. The resale agreement is with an unrated entity, resulting in the allocation above.

⁽⁵⁾ The balance is the maximum exposure to credit risk.

29.2 Interest rate risk

The current group interest rate profile is monitored by ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including inter alia, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio. The exposure to interest rate risk is managed within board-approved tolerances.

Capitec's interest rate risk position is primarily the result of offering fixed-rate retail term loans and a conservative liquidity strategy. Interest rate management has a number of drivers including mismatches in the repricing of assets and liabilities, changes in yield curve risk, optionality inherent in certain products and basis risk.

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

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

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The group operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

Sensitivity analysis

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

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

- · Immediately following the reporting date.
- Based on floating rate assets and liabilities held at amortised cost (negotiable instruments, and floating bond liabilities), excluding the effect of cash flow hedges.
- · On the statement of financial position at the reporting date.
- The movement in rates was applied as a parallel shift in the applicable yield curves.
- The impact on the income statement reflects the effect of the shift in rates over 12 months, on an undiscounted basis, on net interest income, inclusive of the effect of interest rate hedges.
- · The impact on other comprehensive income reflects the change in the valuation of interest rate cash flow hedges.

	Ir	mpact on Incom	e Statement			Impact on	Equity	
	201	.7	201	.6	201	.7	201	.6
200-basis points R'000	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(2 320)	(1 671)	(25 482)	(18 347)	66 124	47 609	124 353	89 534
Decrease	2 320	1 671	25 482	18 347	(66 124)	(47 609)	(124 353)	(89 534)

29.3 Currency risk

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

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

29.4 Other market risk

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

29.5 Liquidity risk

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

The table below analyses the group's assets and liabilities into maturity groupings based on the remaining period, at the statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- · Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- · The cash flows of floating rate financial instruments are calculated using published forward market rates at the statement of financial position date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- · Contractual cash flows with respect to items which have not yet been recorded on the statement of financial position, are excluded. Refer to Note 36.
- · Conditionally revocable retail loan commitments totalling R457.6 million (2016: R203.5 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less.
- · The group's contractual commitment is revocable should a client not meet their contractual obligations or where the group has determined that the client's credit risk profile has changed. A total of 52% (2016: 34%) of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future draw downs must also occur within the month.
- · Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

29.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities (1)(3) — R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment /open- ended ⁽⁴⁾	Total
2017							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 957 106	698 000	_	_	_	2 655 106
Cash and cash equivalents – banks	4	11 545 068	4 520 353	_	_	_	16 065 421
Money markets unit trusts – corporate other	4	6 855	_	_	_	_	6 855
Held-to-maturity investments – sovereigns and banks ⁽⁶⁾	5	240 000	1 656 973	3 611 740	_	_	5 508 713
Term deposit investments	6	110 487	3 176 224	3 553 678	_	_	6 840 389
Available-for-sale financial assets	10	_	_	_	_	100 000	100 000
Loans and advances to clients – retail personal	7	3 063 925	4 744 656	18 864 778	49 108 078	(718 744)	75 062 693
Loans and advances to clients – corporate other	7	10 164	_	_	_	_	10 164
Other receivables	8	698 436	4 753	284 231	2 139	_	989 559
Derivative assets	9	227	(3 912)	63 487	3 774	_	63 576
Undiscounted assets		17 632 268	14 797 047	26 377 914	49 113 991	(618 744)	107 302 476
Adjustments for undiscounted assets		(1 084 396)	(2 222 778)	(8 492 958)	(18 614 620)	_	(30 414 752)
Discounted assets							
Loan impairment provision	7	(596 245)	(289 262)	(1 066 511)	(3 978 359)	_	(5 930 377)
Total discounted assets		15 951 627	12 285 007	16 818 445	26 521 012	(618 744)	70 957 347
Undiscounted liabilities							
Deposits and bonds	15	31 088 297	3 066 531	9 317 048	16 594 249	_	60 066 125
Current income tax liabilities		92 694	(62 353)	-	_	_	30 341
Other liabilities	16	662 937	433 376	29 012	161 525	213 800	1 500 650
Derivative liabilities		9 314	3 282	10 467	25 399	_	48 462
Provisions	17	_	_	_	81 024	_	81 024
Undiscounted liabilities		31 853 242	3 440 836	9 356 527	16 862 197	213 800	61 726 602
Adjustments for undiscounted liabilities to depositors		(28 393)	(211 526)	(1 099 174)	(3 147 625)	_	(4 486 718)
Total discounted liabilities		31 824 849	3 229 310	8 257 353	13 714 572	213 800	57 239 884
Net liquidity excess/(shortfall)		(15 773 222)	9 055 697	8 561 092	12 806 440	(932 544)	13 717 463
Cumulative liquidity excess/(shortfall)(2)		(15 773 222)	(6 717 525)	1 843 567	14 650 007	13 717 463	13 717 463

29.5 Liquidity risk (continued)

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

The contractual maturity of the financial assets and liabilities of the company are all on demand to one month.

Much of the liquidity shortfall in the demand to three month categories results from the investment of excess cash in treasury bills with maturities in excess of three months.

These instruments are highly liquid and can be converted to cash should the need arise.

These instruments are highly liquid and can be converted to cash should the need arise.

The definitions of sovereign, banks, corporate and retail are aligned with the Banks Act Regulations.

The adjustment includes adjustments to loan origination fees, leave pay provision, deferred income and straight-lining of lease accruals. Open-ended refers to available-for-sale financial assets.

29.5 Liquidity risk (continued)

2017 Undiscounted assets Loans and advances to clients – retail personal 7 49 108 078 20 005 094 14 270 472 8 578 715 4 309 429 1 944 468	_
Undiscounted assets Loans and advances to clients –	_
	_
Other receivables 8 2 139 1 919 220	_
Derivative assets 9 3 774 730 3 044	_
Undiscounted assets 49 113 991 20 007 743 14 273 516 8 578 715 4 309 429 1 944 688	_
Adjustments for undiscounted assets (18 614 620) (7 625 367) (4 739 483) (2 985 923) (2 031 849) (1 231 918)	_
Discounted assets	
Loan impairment provision 7 (3 978 359) (1 510 613) (1 107 644) (696 632) (387 652) (275 818)	_
Total discounted assets 26 521 012 10 871 763 8 426 389 4 896 160 1 889 928 436 952	_
Undiscounted liabilities	
Deposits and bonds 15 16 594 249 5 589 963 4 458 402 3 241 139 3 012 020 292 725	_
Other liabilities 16 161 525 95 793 36 496 10 809 2 204 16 223	_
Derivative liabilities 25 399 18 521 4 462 2 416	_
Provisions 17 81 024 58 997 22 027	
Undiscounted liabilities 16 862 197 5 763 274 4 521 387 3 254 364 3 014 224 308 948	_
Adjustments for undiscounted liabilities to depositors (3 147 625) (1 106 471) (759 648) (589 095) (657 813) (34 598)	_
Total discounted liabilities 13 714 572 4 656 803 3 761 739 2 665 269 2 356 411 274 350	_
Net liquidity excess/(shortfall) 12 806 440 6 214 960 4 664 650 2 230 791 (466 483) 162 522	_
Cumulative liquidity excess/ (shortfall) 14 650 007 8 058 527 12 723 177 14 953 968 14 487 485 14 650 007	14 650 007
2016	
Undiscounted assets	
Loans and advances to clients – retail personal 7 45 072 612 17 382 825 12 935 778 8 197 069 4 157 547 2 399 393	_
Other receivables 8 27 181 26 964 217	_
Derivative assets 9 263 048 221 923 24 022 17 103	_
Undiscounted assets 45 362 841 17 631 712 12 959 800 8 214 172 4 157 547 2 399 610	
Adjustments for undiscounted assets (16 530 021) (7 641 235) (4 799 150) (2 535 651) (1 068 667) (485 318)	_
Discounted assets	
Loan impairment provision 7 (3 598 651) (1 052 441) (868 244) (661 136) (476 988) (539 842)	-
Total discounted assets 25 234 169 8 938 036 7 292 406 5 017 385 2 611 892 1 374 450	_
Undiscounted liabilities	_
Deposits and bonds 15 15 855 225 5 687 757 3 524 374 3 403 964 2 608 260 630 870	-
Trade and other payables 16 143 018 44 739 24 897 12 346 2 416 58 620	-
Provisions 17 107 905 68 963 38 942	
Undiscounted liabilities 16 106 148 5 801 459 3 588 213 3 416 310 2 610 676 689 490	_
Adjustments for undiscounted liabilities to depositors (3 079 270) (1 140 493) (782 520) (560 530) (476 477) (119 250)	_
Total discounted liabilities 13 026 878 4 660 966 2 805 693 2 855 780 2 134 199 570 240	_
Net liquidity excess/(shortfall) 12 207 291 4 277 070 4 486 713 2 161 605 477 693 804 210	_
Cumulative liquidity excess/ (shortfall) 12 615 543 4 685 322 9 172 035 11 333 640 11 811 333 12 615 543	12 615 543

29.6 Capital management

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

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

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

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

	GRO	IUP	BAI	ΝK
R'000	2017	2016	2017	2016
Composition of qualifying regulatory capital				
Ordinary share capital	5 649 020	5 649 020	6 105 981	6 105 981
Accumulated profit	10 329 731	7 772 004	9 581 370	7 206 764
	15 978 751	13 421 024	15 687 351	13 312 745
Regulatory adjustments				
- Intangible assets in terms of IFRS	(279 946)	(242 648)	(279 946)	(242 648)
- Specified advances	(2 927)	(3 030)	(18)	(4 158)
– Unappropriated profit	(808 996)	(549 390)	(808 996)	(549 390)
Common Equity Tier 1 capital (CET1)	14 886 882	12 625 956	14 598 391	12 516 549
Issued preference share capital ⁽⁷⁾	150 998	173 894	150 998	173 894
Phase out – non-loss absorbent ⁽¹⁾	(21 513)	(18 513)	(21 513)	(18 513)
Additional Tier 1 capital (AT1)	129 485	155 381	129 485	155 381
Tier 1 capital (T1)	15 016 367	12 781 337	14 727 876	12 671 930
Issued subordinated debt	2 641 000	2 891 000	2 641 000	2 891 000
Phase out – non-loss absorbent ⁽¹⁾	(1 588 400)	(1 156 400)	(1 588 400)	(1 156 400)
Deduction for third party capital issued by bank subsidiary ⁽²⁾	(195 766)	(333 445)	_	-
Total subordinated debt	856 834	1 401 155	1 052 600	1 734 600
Unidentified impairments	491 168	459 703	491 168	459 703
Tier 2 capital (T2)	1 348 002	1 860 858	1 543 768	2 194 303
Qualifying regulatory capital	16 364 369	14 642 195	16 271 644	14 866 233
CET1 %	30.8	30.1	30.2	29.8
AT1 %	0.3	0.4	0.3	0.4
T1 %	31.1	30.5	30.5	30.2
T2 %	2.8	4.4	3.2	5.2
Total capital adequacy % ⁽³⁾	33.9	34.9	33.7	35.4

29.6 Capital management (continued)

	GF	ROUP	BANK		
R'000	2017	2016	2017	2016	
Composition of required regulatory capital					
On the statement of financial position	4 213 819	3 582 854	4 225 547	3 593 005	
Off the statement of financial position	_	-	_	-	
Credit risk	4 213 819	3 582 854	4 225 547	3 593 005	
Operational risk	622 840	291 797	622 784	292 060	
Equity risk in the banking book	41 165	_	41 165	_	
Other assets	312 511	214 434	300 371	204 444	
Total regulatory capital requirement ⁽⁴⁾	5 190 335	4 089 085	5 189 867	4 089 509	
Composition of risk-weighted assets(5)					
On the statement of financial position	39 198 314	36 747 217	39 307 414	36 851 331	
Off the statement of financial position	_	_	_	_	
Credit risk	39 198 314	36 747 217	39 307 414	36 851 331	
Operational risk	5 793 863	2 992 792	5 793 340	2 995 489	
Equity risk in the banking book	382 933	_	382 933	_	
Other assets	2 907 080	2 199 318	2 794 146	2 096 864	
Total risk-weighted assets	48 282 190	41 939 327	48 277 833	41 943 684	
Total assets based on IFRS	73 357 897	62 945 502	73 348 966	62 942 458	
Total risk-weighted assets – adjustments ⁽⁶⁾	(25 075 707)	(21 006 175)	(25 071 133)	(20 998 774)	
Total risk-weighted assets – regulatory	48 282 190	41 939 327	48 277 833	41 943 684	

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

gi Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3. This deduction phases in at 20% per annum.

The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.
 This value is 10.75% (2016: 9.75%) of risk-weighted assets, being the Basel global minimum requirement of 8%, the South African country-specific buffer of 1.5% (2016: 1.75%) and the Capital Conservation Buffer of 1.25% (disclosable in terms of SARB November 2016 directive in order to standardise reporting across banks). In terms of the regulations the Individual Capital Requirement (ICR) is excluded. Operational risk disclosure changed from 1 March 2016, per the SA Reserve Bank's instruction. The operational risk capital add-on, in accordance with the ASA method, has been converted to an equivalent Risk Weighted Asset (RWA). This reduced the Capital Adequacy Ratio by approximately 1.9% in March 2016, as qualifying capital remains the same but is divided by a higher RWA amount.

[®] Risk-weighted assets are calculated by using regulatory percentages applied to the statement of financial position, in order to establish the base for calculating the required regulatory

The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.

The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 41.69% (2016: 32.85%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

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

			ue through nd loss	At amort	ised cost	
R'000	Notes	Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total
2017						
Interest income	20	_	_	14 934 427	_	14 934 427
Interest expense	20	_	_	_	(3 551 821)	(3 551 821)
Loan fee income		_	_	1 136 821	_	1 136 821
Loan fee expense		_	_	(642 445)	_	(642 445)
Transaction fee income		_	_	_	5 499 858	5 499 858
Transaction fee expense		_	_	_	(1 576 435)	(1 576 435)
Dividend income	21	_	45	_	_	45
Net impairment on loans and advances to clients	22	_	_	(5 121 177)	_	(5 121 177)
2016						
Interest income	20	-	_	13 411 671	_	13 411 671
Interest expense	20	-	-	_	(2 883 666)	(2 883 666)
Loan fee income		-	-	606 844	_	606 844
Loan fee expense		-	-	(690 054)	-	(690 054)
Transaction fee income		-	-	-	4 326 103	4 326 103
Transaction fee expense		-	-	-	(1 305 890)	(1 305 890)
Dividend income	21	-	53	_	_	53
Net impairment on loans and advances to clients	22	-	-	(4 400 637)	_	(4 400 637)
Net movement in financial instruments held at fair value through profit or loss	23	_	(1 304)	-	-	(1 304)

At fair value through

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

Valuation processes

Determination on fair values and valuation processes

Fair values are market-based, calculated first with reference to observable inputs available in the market, then less observable and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistent with the unit of account used for the measurement of the asset or liability in the statement of financial position and income statement and assume an orderly market on a going concern basis.

The group's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques, 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

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

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

The fair value hierarchy is applied to both those assets and liabilities measured at fair value 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:

			ue through nensive income	e At amort	ised cost			Hierarchy of
R'000	Notes	Financial assets	As hedging instrument	Financial assets	Financial liabilities	Total	Fair value	valuation technique
2017								
Financial assets								
Cash, cash equivalents and								
money market funds	4	_	_	18 677 222	_	18 677 222	18 677 222	(2)
Held-to-maturity investments	5	-	_	5 326 724	_	5 326 724	5 326 724	(2)
Available for sale investment	10	100 000				100 000	100 000	Level 3
Term deposit investments	6	_	-	6 600 749	-	6 600 749	6 600 749	(2)
Loans and advances to clients	7	_	_	39 204 980	-	39 204 980	45 064 417	Level 3
Other receivables	8	-	-	989 559	-	989 559	989 559	(2)
Derivative assets ⁽¹⁾	9	-	58 113		-	58 113	58 113	Level 2
Financial liabilities								
Deposits and bonds	15	_	_	_	55 582 271	55 582 271	55 911 230	Level 2
- Listed bonds		_	_	_	5 099 199	5 099 199	5 234 729]
- Other fixed-term institutional								
deposits		_	-	_	2 443 852	2 443 852	2 545 009	
- Retail deposits		_	_	_	48 039 220	48 039 220	48 131 492	
Derivative liabilities(1)		-	45 598	-		45 598	45 598	Level 2
Other liabilities	16	_	_	_	1 455 052	1 455 052	1 455 052	(2)
2016								
Financial assets								
Cash, cash equivalents and								
money market funds	4	_	-	14 164 697	-	14 164 697	14 164 697	(2)
Held-to-maturity investments	5	-		3 634 710	-	3 634 710	3 634 710	
Term deposit investments	6	_	-	7 188 781	-	7 188 781	7 188 781	(2)
Loans and advances to clients	7	_	-	35 759 860	-	35 759 860	38 164 830	Level 3
Other receivables	8	_	-	121 751	-	121 751	121 751	(2)
Derivative assets ⁽¹⁾	9	_	225 403	-	-	225 403	225 403	Level 2
Financial liabilities								
Deposits and bonds	15	-	-	-	47 940 148	47 940 148	48 088 701	Level 2
- Listed bonds		-	-	_	6 280 481	6 280 481	6 327 832	
- Other fixed-term institutional								
deposits		-	-	-	3 872 813	3 872 813	3 852 567	
- Retail deposits					37 786 854	37 786 854	37 908 302	
Trade and other payables	16	-	-	_	1 238 384	1 238 384	1 238 384	
Provisions	17				107 905	107 905	107 905	(2)

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

29.9 Fair value calculation methods, inputs and techniques

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

Loans and advances to clients

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

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

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

Market risk premium

A market risk premium was applied to the equity element in the WACC. This addresses the opportunity cost of other similar available investments on a risk and reward basis, industry cyclicality and the cost of regulation as banking is a regulated industry.

· Debt-to-equity ratio

Equity is regarded as the more expensive component of the WACC. A shift in the assumed debt-to-equity ratio impacts the valuation accordingly.

Marketability discount overlay

A marketability discount was applied to reflect the relative illiquidity of the investment and the impact of disconnecting the advances book from the supporting bank infrastructure.

Derivative assets and liabilities

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

Deposits and bonds

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

· Listed subordinated and senior bonds

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

Unlisted wholesale fixed-term deposit and bonds

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

· Retail fixed-term deposits

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

CDUID

		GRU	UP	CUMP	AINT
	R'000	2017	2016	2017	2016
30.	Retirement benefits				
	The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries				
	and bonus cost as per Note 24.	159 118	127 340	_	_

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

COMPANY

	GROU	JP	COMP	ANY
R'000	2017	2016	2017	2016
Related-party transactions		-		
SUBSIDIARIES				
Dividends				
Ordinary dividend received	_	_	1 306 585	1 115 800
Preference dividend received	_	_	15 719	16 064
Capitec Bank Limited	_	-	1 322 304	1 131 864
Management fees received – Capitec Bank Limited Investments in subsidiaries are disclosed in Note 11.	-	_	3 121	3 263
Loans due (to)/from:				
Capitec Bank Limited ⁽¹⁾		_	11 135	16 340
Keymatrix Proprietary Limited		_	(1)	(1)
PARTIES WITH SIGNIFICANT INFLUENCE			(1)	(1)
Brokers' fees	110	236	_	_
Sponsor fees	81	90	81	90
PSG Group and subsidiaries ⁽²⁾	191	326	81	90
KEY MANAGEMENT			<u>.</u>	
Key management employees' remuneration				
Salaries and other short-term benefits	37 953	43 025	_	_
Post-employment benefits	1 545	2 193		_
Share-based payments	90 607	59 373		_
Key management compensation paid by subsidiaries ⁽³⁾	130 105	104 591	_	_
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme ⁽⁴⁾	,			
Loans outstanding at the beginning of the year	2 739	127	_	-
Loans advanced during the year	-	2 599	_	-
Interest charged on loans during the year	208	17	-	-
Loan repayments during the year	(158)	(4)		
Loans outstanding at the end of the year	2 789	2 739		
Retail deposits from directors and other key management employees ⁽⁵⁾				
Deposits at the beginning of the year	7 599	15 667	_	-
Interest earned during the year	1 083	941	-	-
(Withdrawals)/deposits made during the year	2 711	(9 009)	-	_
Deposits at the end of the year	11 393	7 599	_	_

Directors' interest in contracts

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant contract with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year.

⁽¹⁾ The loan is subject to an unlimited cross suretyship

⁽²⁾ Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth. PSG Capital is the corporate advisor and sponsor of the group.

⁽⁹⁾ Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors'

⁽⁴⁾ No loans were extended to directors. Loans to other key management employees by subsidiaries have fixed repayment terms and bear interest at the official rate of interest for individuals as determined by SARS.

⁽⁵⁾ Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.

Related-party transactions (continued) 31.

Directors' interest in share capital(1)

During the year the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 17 256 823 (2016: 17 502 976) Capitec Bank Holdings Limited shares, equivalent to 14.92%, (2016: 15.13%) of the issued share capital. The individual interests of the directors including those that resigned during the year were as follows:

	_			of shares held		
Ordinary shares	Ben Direct	eficial Indirect**	Non-l Direct	peneficial Indirect**	Total Shares	%
2017	2001					,,,
AP du Plessis*	30 000	1 031 204	_	_	1 061 204	0.92
MS du P le Roux	_	_	_	13 306 700	13 306 700	11.51
GM Fourie*	_	1 032 875	_	_	1 032 875	0.89
RJ Huntley ⁽²⁾	_	_	_	28 292	28 292	0.02
NS Mashiya ^{(3)*}	748	_	_	_	748	0.00
JD McKenzie	_	_	_	_	_	0.00
NS Mjoli-Mncube	75 400	_	_	_	75 400	0.07
PJ Mouton	_	12 540	_	_	12 540	0.01
CA Otto	1 064	_	_	498 000	499 064	0.43
G Pretorius ⁽⁴⁾	_	32 500	_	_	32 500	0.03
R Stassen (Chairman) ⁽⁵⁾	_	_	_	1 202 500	1 202 500	1.04
JP Verster	5 000	_	_	_	5 000	0.00
	112 212	2 109 119	_	15 035 492	17 256 823	14.92
2016		,	,		,	
AP du Plessis*	32 492	1 037 963	_	_	1 070 455	0.93
MS du P le Roux (Chairman)	_	_	_	13 306 700	13 306 700	11.51
GM Fourie*	_	1 050 168	_	7 707	1 057 875	0.91
RJ Huntley	_		_	28 292	28 292	0.02
JD McKenzie	_	_	_	_	_	0.00
NS Mjoli-Mncube	75 400		_	-	75 400	0.07
PJ Mouton	_	12 540	_	-	12 540	0.01
CA Otto	1 064	_	_	499 400	500 464	0.43
G Pretorius	_	32 500	_	-	32 500	0.03
R Stassen	26 250	_	_	1 387 500	1 413 750	1.22
JP Verster	5 000	_	_	_	5 000	0.00
	140 206	2 133 171	_	15 229 599	17 502 976	15.13

Retired 27 May 2016.

Succeeded MS du P le Roux as chairman on 27 May 2016.

	Number of		Number of		
Preference shares	shares	%	shares	%	
R Stassen (non-beneficial)	21 000	1.26	21 000	1.09	
	21 000	1.26	21 000	1.09	

^{*} Executive.

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

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

⁽³⁾ Appointed on 1 June 2016.

31. Related-party transactions (continued)

Directors' interest in share incentive scheme - options

2017			Strike	Opening balance		ons exercised		Closing balance
	Maturity	Issue	price	Number of share	of share	Market price	Exercise	Number of share
Directors	date	date	R	options	options	R	date	options
AP du Plessis	01 Apr 17	12 Apr 11	160.09	3 750	_	_	_	3 750
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 17	15 Apr 14	196.43	5 936	_	_	_	5 936
	01 Apr 17	01 Apr 15	371.88	17 364	_	_	_	17 364
	01 Apr 18	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 18	15 Apr 14	196.43	5 937	_	_	_	5 937
	01 Apr 18	01 Apr 15	371.88	17 364	_	_	_	17 364
	01 Apr 19	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 19	15 Apr 14	196.43	5 937	_	_	_	5 937
	01 Apr 19	01 Apr 15	371.88	17 363	_	_	_	17 363
	01 Apr 19	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 20	01 Apr 15	371.88	17 363	_	_	_	17 363
	01 Apr 20	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 21	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 22	01 Apr 16	473.05	_	5 605	_	_	5 605
				114 139	22 420			136 559
GM Fourie	01 Nov 16	01 Nov 13	209.83	6 875	(6 875)	683.33	04 Nov 16	_
(direct beneficial)	01 Apr 17	12 Apr 11	160.09	2 500	_	_	_	2 500
	01 Apr 17	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 17	15 Apr 14	196.43	4 582	_	-	_	4 582
	01 Apr 17	01 Apr 15	371.88	22 872	-	-	-	22 872
	01 Nov 17	01 Nov 13	209.83	6 875	_	-	_	6 875
	01 Apr 18	11 Apr 12	198.52	5 000	_	-	_	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 18	15 Apr 14	196.43	4 583	_	-	-	4 583
	01 Apr 18	01 Apr 15	371.88	22 872	_	-	-	22 872
	01 Nov 18	01 Nov 13	209.83	6 875	-	-	-	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	_	-	-	4 375
	01 Apr 19	15 Apr 14	196.43	4 583	_	-	-	4 583
	01 Apr 19	01 Apr 15	371.88	22 872	-	-	-	22 872
	01 Apr 19	01 Apr 16	473.05	_	9 170	-	-	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	-	-	-	6 875
	01 Apr 20	01 Apr 15	371.88	22 871	-	-	-	22 871
	01 Apr 20	01 Apr 16	473.05	_	9 169	-	-	9 169
	01 Apr 21	01 Apr 16	473.05	_	9 169	-	-	9 169
	01 Apr 22	01 Apr 16	473.05	_	9 169	_	_	9 169
				158 360	29 802			188 162

Related-party transactions (continued) 31.

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

2017				Opening balance Number	(Options exercised)/ Options granted Number Market)/	Closing balance Number
Directors	Maturity date	Issue date	price R	of share options	of share options	price R	Exercise date	of share options
Mashiya NS	01 Nov 17	02 Nov 15	539.88	8 875	_	_	_	8 875
(direct beneficial)	01 Nov 18	02 Nov 15	539.88	8 875	_	_	_	8 875
	01 Apr 19	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Nov 19	02 Nov 15	539.88	8 875	_	_	_	8 875
	01 Apr 20	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Nov 20	02 Nov 15	539.88	8 875	_	_	_	8 875
	01 Apr 21	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Apr 22	01 Apr 16	473.05	_	1 947	_	_	1 947
				35 500	7 791			43 291
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	-	_	_	7 500
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	_	_	_	12 500
	01 Apr 18	11 Apr 12	198.52	12 500	_	_	_	12 500
				32 500	_			32 500
Total				340 499	60 013			400 512

Directors' interest in share incentive scheme - share appreciation rights

2017			SAR exercise	Opening balance	(SAR exercised)/SAR granted Market			Closing balance Number
D'andre	Maturity	Issue	price	Number	Number	price	Exercise	of
Directors	date	date	R	of SAR	of SAR	R	date	SAR
AP du Plessis	01 Apr 17	12 Apr 11	160.09	3 750	_	-	_	3 750
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	_	_	-	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	_	_	-	4 375
	01 Apr 17	15 Apr 14	0.01	2 016	_	_	_	2 016
	01 Apr 17	01 Apr 15	0.01	5 904	_	_	_	5 904
	01 Apr 18	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 18	15 Apr 14	0.01	2 016	_	_	_	2 016
	01 Apr 18	01 Apr 15	0.01	5 904	_	_	_	5 904
	01 Apr 19	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 19	15 Apr 14	0.01	2 017	_	_	_	2 017
	01 Apr 19	01 Apr 15	0.01	5 903	_	_	_	5 903
	01 Apr 19	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 20	01 Apr 15	0.01	5 903	_	_	_	5 903
	01 Apr 20	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 21	01 Apr 16	473.05	_	5 605	_	_	5 605
	01 Apr 22	01 Apr 16	473.05	_	5 605	_	_	5 605
				56 538	22 420			78 958

Related-party transactions (continued)

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

2017			SAR	Opening balance	(SAR exerc	Closing balance Number		
	Maturity	ity Issue	exercise price	Number	Number	Market price		of
Directors	date	date	R	of SAR	of SAR	R	date	SAR
GM Fourie	01 Nov 16	01 Nov 13	209.83	6 875	(6 875)	685	01 Nov 16	_
(direct beneficial)	01 Apr 17	12 Apr 11	160.09	2 500	_	_	_	2 500
	01 Apr 17	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 17	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 17	15 Apr 14	0.01	1 556	_	_	_	1 556
	01 Apr 17	01 Apr 15	0.01	7 777	_	_	_	7 777
	01 Nov 17	01 Nov 13	209.83	6 875	_	_	_	6 875
	01 Apr 18	11 Apr 12	198.52	5 000	_	_	_	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 18	15 Apr 14	0.01	1 556	_	_	_	1 556
	01 Apr 18	01 Apr 15	0.01	7 777	_	_	_	7 777
	01 Nov 18	01 Nov 13	209.83	6 875	_	_	_	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	_	_	_	4 375
	01 Apr 19	15 Apr 14	0.01	1 557	_	_	_	1 557
	01 Apr 19	01 Apr 15	0.01	7 776	_	_	_	7 776
	01 Apr 19	01 Apr 16	473.05	_	9 170	_	_	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	_	_	_	6 875
	01 Apr 20	01 Apr 15	0.01	7 776	_	_	_	7 776
	01 Apr 20	01 Apr 16	473.05	_	9 169	_	_	9 169
	01 Apr 21	01 Apr 16	473.05	_	9 169	_	_	9 169
	01 Apr 22	01 Apr 16	473.05	_	9 169	_	_	9 169
				88 900	29 802			118 702
Mashiya NS	01 Nov 17	02 Nov 15	0.01	3 000	_	_	_	3 000
(direct beneficial)	01 Nov 18	02 Nov 15	0.01	3 000	_	_	_	3 000
	01 Apr 19	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Nov 19	02 Nov 15	0.01	3 000	_	_	_	3 000
	01 Apr 20	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Nov 20	02 Nov 15	0.01	3 000	_	_	_	3 000
	01 Apr 21	01 Apr 16	473.05	_	1 948	_	_	1 948
	01 Apr 22	01 Apr 16	473.05	_	1 947	_	_	1 947
				12 000	7 791			19 791
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	_	_	_	7 500
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	_	_	_	12 500
	01 Apr 18	11 Apr 12	198.52	12 500	_	_	_	12 500
				32 500	_			32 500
Total				189 938	60 013			249 951

31. Related-party transactions (continued)

Directors' remuneration

The total share option expense relating to directors amounted to R19 189 329 (2016: R13 892 281) and share appreciation rights expense amounted to R 57 761 790 (2016: R39 518 151).

						granted during the
						year on
Blood	Calada	Fringe	D	-	T. I. I	reporting
R'000	Salaries	benefits	Bonuses	Fees	Total	date
2017						
Executive ⁽¹⁾						
AP du Plessis	7 525	76	2 861	-	10 462	3 204
GM Fourie	9 750	80	3 750	_	13 580	5 242
NS Mashiya ⁽⁴⁾	3 733	112	1 418	-	5 263	1 113
Non-executive						
MS du P le Roux	_	_	_	589	589	_
RJ Huntley ⁽⁵⁾	_	_	_	184	184	_
JD McKenzie	_	_	_	565	565	_
NS Mjoli-Mncube	_	_	_	330	330	_
PJ Mouton	_	_	_	495	495	_
CA Otto	_	_	_	620	620	_
G Pretorius ⁽⁶⁾	_	_	_	79	79	_
R Stassen (Chairman) ⁽³⁾	_	_	_	1 004	1 004	_
JP Verster	_	_	_	565	565	_
	21 008	268	8 029	4 431	33 736	9 559
2016						
Executive ⁽¹⁾						
AP du Plessis	6 692	229	3 646	_	10 567	6 658
GM Fourie	8 018	468	4 427	-	12 913	8 770
Non-executive						
MS du P le Roux (Chairman)	_	_	_	1 200	1 200	-
RJ Huntley	_	_	_	306	306	_
JD McKenzie	_	-	_	522	522	_
NS Mjoli-Mncube	_	-	_	306	306	_
PJ Mouton	_	-	_	462	462	_
CA Otto	_	_	_	574	574	_
G Pretorius ⁽⁶⁾	_	-	_	306	306	_
R Stassen	_	-	_	388	388	_
JP Verster	_	_	-	491	491	_
JP van der Merwe ⁽²⁾	-	-	-	29	29	_
	14 710	697	8 073	4 584	28 064	15 428

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

of options and rights

<sup>Resigned on 20 March 2015.
Succeeded MS du P le Roux as chairman on 27 May 2016.
Appointed as an executive director on 1 June 2016.
Resigned on 21 September 2016.
Retired 27 May 2016.</sup>

	GRO	GROUP		
		Restated		
R'000	2017	2016	2017	2016
Cash flow from operations				
Net profit before tax	5 240 605	4 472 231	1 322 331	1 130 676
Adjusted for non-cash items				
Fair value adjustments on financial assets	_	1 304	_	-
Loan impairment charge	798 772	1 274 235	_	_
Depreciation	358 446	305 646	_	_
Amortisation	178 531	97 531	_	-
Loss/(profit) on disposal of assets	4 169	11 926	_	_
Share-based employee costs – options	42 030	23 163	_	-
Movements in assets and liabilities				
Loans and advances to clients	(4 243 892)	(4 550 198)	1 386	301
Other receivables	(909 467)	(12 889)	439	975
Derivatives	108 946	(111 682)	_	_
Deposits and bonds ⁽¹⁾	9 075 950	7 298 755	_	_
Trade and other payables	142 241	165 186	(5 643)	5 653
Movements in provisions	(26 881)	43 637	_	_
Share-based employee costs – share appreciation rights	120 755	(33 556)	_	_
Cash flow from operations ⁽¹⁾	10 890 205	8 985 289	1 318 513	1 137 605

⁽¹⁾ Reclassification of 2016

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

The impact of this reclassification is presented as follows:

	2016	Reported	
R'000	Restated	previously	Impact
Cash flow from operations	8 985 289	8 445 377	539 912
Cash flow from financing activities	(1 771 908)	(1 231 996)	(539 912)
Net increase in cash and cash equivalents	7 213 381	7 213 381	_

	GRO	UP	COMPANY		
R'000	2017	2016	2017	2016	
Income taxes paid					
Balance at the beginning of the year	(52 702)	(37 635)	_	-	
Income statement charge	1 433 675	1 243 994	_	29	
Movement in deferred tax	83 349	57 133	_	-	
Tax effect on settlement of share options taken to equity	(45 991)	(18 402)	_	-	
Balance at the end of the year	(30 341)	52 702	_	-	
Income tax paid	1 387 990	1 297 792	_	29	
Dividends paid					
Balance at the beginning of the year	10 382	10 790	10 382	10 790	
Dividend declared during the year:					
Ordinary dividend	1 306 585	1 115 809	1 306 585	1 115 800	
Preference dividend	15 719	16 064	15 719	16 064	
Balance at the end of the year	(9 652)	(10 382)	(9 652)	(10 382)	
Dividends paid	1 323 034	1 132 281	1 323 034	1 132 272	
Realised loss on settlement of employee share options less participants' contributions					
Nil (2016: Nil) ordinary shares issued	_	-	_	_	
Shares acquired	(27 288)	(100 820)	_	-	
Fair value of shares utilised to settle share options	(27 288)	(100 820)	_	-	
Proceeds on settlement of options	13 159	33 310	_	-	
	(14 129)	(67 510)	_	_	

	GROUP			COMPANY		
R'000	2017	2016	2017	2016		
Commitments and contingent liabilities						
Property operating lease commitments ⁽¹⁾						
The future aggregate minimum lease payments under non-cancellable leases are as follows:						
Within one year	421 522	353 711	_	-		
From one to five years	1 244 708	1 072 435	_	-		
After five years	298 150	278 522	_	-		
Total future cash flows	1 964 380	1 704 668	-	_		
Straight-lining accrued	(113 997)	(89 184)	_	-		
Future expenses	1 850 383	1 615 484	_	_		
The group leases various branches under non-cancellable operating leases expiring within one to 11 On renewal, the terms of the leases are renegotiated. Excess space is sub-let to third parties also undo Other operating lease commitments			lation clauses and re	newal rights.		
Within one year	355	1 734	_	_		
From one to five years	_	362	_	_		
·	355	2 096	_	_		
Capital commitments – approved by the board	1	ı				
Contracted for						
Property and equipment	196 414	346 647	_	-		
Intangible assets	35 609	24 126	_	-		
Not contracted for						
Property and equipment	923 647	701 586	-	-		
Intangible assets	392 979	467 234	_			
	1 548 649	1 539 593	_	_		

Borrowing powers 37.

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

These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990) and section 45(3) (a)(ii) of the Companies Act, 2008. A special resolution was passed at the annual general meeting on 30 May 2016 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or inter-related company to the company, on the terms and conditions and for the amounts that the board may determine.

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

38. Share incentive scheme

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

The bank allows its employees to purchase shares in CBHL up to a value not exceeding 20% (2016: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2016: 20%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

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

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

Number	2017	2016
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	868 487	710 429
Options granted	143 446	371 796
Options cancelled and/or lapsed	_	(5 939)
Options exercised	(49 224)	(207 799)
Balance at the end of the year	962 709	868 487
Share appreciation rights issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	511 938	756 802
Share appreciation rights granted	143 446	126 340
Share appreciation rights cancelled and/or lapsed	-	(5 939)
Share appreciation rights exercised	(52 837)	(365 265)
Balance at the end of the year	602 547	511 938

38. Share incentive scheme (continued)

	20:	2016		
Analysis of outstanding share options by year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2015/2016	_	_	171.59	9 290
2016/2017	_	_	233.34	39 934
2017/2018	262.34	281 555	262.34	281 555
2018/2019	276.32	247 676	276.32	247 676
2019/2020	324.78	232 954	296.43	197 087
2020/2021	413.71	128 808	387.92	92 945
2021/2022	480.54	35 860	_	_
2022/2023	480.54	35 856	_	_
	317.55	962 709	285.20	868 487
Number			2017	2016
Shares available from previous period			9 290	_
Shares purchased during the year			39 934	217 089
Shares utilised for settlement of options			(49 224)	(207 799)
Shares available for settlement of options			_	9 290
Settled in shares			(49 224)	(207 799)
Options exercised			(49 224)	(207 799)

	2017		201	.6
Analysis of outstanding share appreciation rights by year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2015/2016	_	_	141.57	31 403
2016/2017	_	_	103.16	21 434
2017/2018	136.45	181 958	136.45	181 958
2018/2019	131.04	148 077	131.04	148 077
2019/2020	199.66	133 353	96.31	97 486
2020/2021	255.53	67 443	0.01	31 580
2021/2022	480.54	35 860	_	-
2022/2023	480.54	35 856	-	-
	203.39	602 547	117.75	511 938

Share option expense 39.

Data utilised in the valuation of options granted

Year granted	Strike Price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing	Risk- free rate %	Number of options outstanding	Fair value on issue/ repricing date ignoring vesting conditions R'000	Expected vesting proportion ⁽¹⁾ %	Value taking into account expected vesting proportion R'000
2011/2012	160.09	168.00	34.4	1.9	2017/2018	8.2	33 880	2 371	100.0	2 371
2012/2013	182.40	187.05	33.1	2.8	2017/2018	6.9	1 713	102	100.0	102
	182.40	187.05	33.1	2.8	2018/2019	7.1	1 714	110	100.0	110
	198.52	206.25	32.9	2.7	2017/2018	6.9	48 877	3 282	100.0	3 282
	198.52	206.25	32.9	2.7	2018/2019	7.2	48 877	3 544	100.0	3 544
2013/2014	201.40	217.50	32.1	3.0	2017/2018	5.4	37 500	2 287	100.0	2 287
	201.40	217.50	32.1	3.0	2018/2019	5.6	37 500	2 484	100.0	2 484
	201.40	217.50	32.1	3.0	2019/2020	5.8	37 500	2 652	100.0	2 652
	209.83	213.50	32.1	3.0	2017/2018	7.2	8 750	530	100.0	530
	209.83	213.50	32.1	3.0	2018/2019	7.5	8 750	587	100.0	587
	209.83	213.50	32.1	3.0	2019/2020	7.7	8 750	635	100.0	635
2014/2015	196.43	206.50	31.5	1.9	2017/2018	7.3	29 880	1 562	100.0	1 562
	196.43	206.50	31.5	1.9	2018/2019	7.5	29 885	1 769	100.0	1 769
	196.43	206.50	31.5	1.9	2019/2020	7.7	29 891	1 936	100.0	1 936
	253.82	288.32	31.2	1.9	2017/2018	6.7	28 000	2 383	100.0	2 383
	253.82	288.32	31.2	1.9	2018/2019	6.6	28 000	2 627	100.0	2 627
	253.82	288.32	31.2	1.9	2019/2020	6.8	28 000	2 848	100.0	2 848
2015/2016	539.88	598.04	31.3	1.2	2017/2018	7.1	8 875	1 415	100.0	1 415
	539.88	598.04	31.3	1.2	2018/2019	7.3	8 875	1 703	100.0	1 703
	539.88	598.04	31.3	1.2	2019/2020	7.5	8 875	1 950	100.0	1 950
	539.88	598.04	31.3	1.2	2020/2021	7.7	8 875	2 162	100.0	2 162
	371.88	535.00	27.3	1.7	2017/2018	6.6	84 080	16 729	100.0	16 729
	371.88	535.00	27.3	1.7	2018/2019	6.8	84 075	18 182	100.0	18 182
	371.88	535.00	27.3	1.7	2019/2020	6.9	84 071	19 456	100.0	19 456
	371.88	535.00	27.3	1.7	2020/2021	7.1	84 070	20 574	100.0	20 574
2016/2017	473.05	573.08	36.1	2.3	2019/2020	7.5	33 264	6 820	100.0	6 820
	473.05	573.08	36.1	2.3	2020/2021	7.7	33 260	7 507	100.0	7 507
	473.05	573.08	36.1	2.3	2021/2022	7.8	33 257	8 066	100.0	8 066
	473.05	573.08	36.1	2.3	2022/2023	7.9	33 253	8 531	100.0	8 531
	576.29	555.60	36.2	2.1	2019/2020	7.9	2 603	399	100.0	399
	576.29	555.60	36.2	2.1	2020/2021	8.1	2 603	466	100.0	466
	576.29	555.60	36.2	2.1	2021/2022	8.2	2 603	521	100.0	521
	576.29	555.60	36.2	2.1	2022/2023	8.3	2 603	569	100.0	569
Grand Total							962 709	146 759	100.0	146 759

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

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

40. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

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

Number

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

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

Dividend yield Volatility(5) 24.1% 717.12 Ex-dividend share price

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

⁽³⁾ As from the 2017 financial year:

SARs are granted at a strike price equal to the 30-day volume weighted average share price up to and including the day before the resolution granting the respective SARs was

There is a fixed ratio between the number of SARs and share options granted.

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

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

41. Derivative financial instruments: economic hedges

	Notional		Fair values	
	USD	ZAR	Assets	Liabilities R'000
	\$'000	R'000	R'000	
2017				
Forward foreign exchange contracts	4 225	74 986	_	17 974
2016				
Forward foreign exchange contracts	-	-	-	_

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R75 million (2016: R Nil).

42. Derivative financial instruments: cash flow hedges

		Notional		Fair values	
R'000		USD	ZAR	Assets	Liabilities
2017					
Interest rate swaps		_	3 896 000	(7 038)	27 624
Cross currency interest rate swaps		30 000	343 500	(51 074)	_
Net		30 000	4 239 500	(58 112)	27 624
2016					
Interest rate swaps		-	4 026 349	(78 090)	_
Cross currency interest rate swaps		30 000	343 500	(147 313)	-
Net		30 000	4 369 849	(225 403)	_
R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand Total
2017					
Discounted swap cash flows	(226)	2 097	7 498	11 217	20 586
Discounted cross currency interest rate swap cash flows	_	4 988	(56 062)	_	(51 074)
Net	(226)	7 085	(48 564)	11 217	(30 488)
2016					
Discounted swap cash flows	1 035	(5 489)	(17 659)	(55 977)	(78 090)
Discounted cross currency interest rate swap cash flows	-	4 3 4 4	11 555	(163 212)	(147 313)
Net	1 035	(1 145)	(6 104)	(219 189)	(225 403)

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

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

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

The fair value adjustment transferred to the income statement amounted to a cost of R107.9 million (2016: R111.2 million) and has been included in interest expense and other operating expenses in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2017 and 2016. There were no transactions for which cash flow hedge accounting had to be discontinued in 2017 and 2016 as a result of highly probable cash flow no longer being expected to occur.

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

2017	Shares held number	Shareholding %
Shareholder		
PSG Financial Services Limited	35 484 898	30.69
Public Investment Corporation SOC	8 481 884	7.34
Limietberg Sekuriteit Proprietary Limited	8 547 063	7.39

44. Black economic empowerment shareholding

2017	Shares held number	Shareholding %
Shareholder	number	70
Petratouch Proprietary Limited	5 284 735	4.57
Coral Lagoon Investments 194 Proprietary Limited	4 715 265	4.08
Nonhlahnla Mjoli-Mncube (director)	75 400	0.07
NS Mashiya	748	_
NST Motjuwadi	11 228	0.01
	10 087 376	8.73

Shareholding by executive management(1)

2017	Shares held number	Shareholding %
Shareholder		
JE Carstens	25 866	0.02
W de Bruyn	72 648	0.06
HAJ Lourens	516 129	0.45
NST Motjuwadi	11 228	0.01
A Olivier	236 817	0.20
L Venter	488 264	0.42
FViviers	3 196	_
	1 354 148	1.16

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

46. Post-balance sheet events

Investment in an international online lending group

On 24 March 2017, we announced our investment in Cream Finance Holding Limited ('Creamfinance'). Creamfinance is a leading online technology-driven consumer loans company, offering multiple credit products across international markets. We will acquire an interest of 40% for €21 million in three tranches at nine-month intervals, subject to specific agreed performance measures being met.

Statutory information

Analysis of shareholders holding ordinary shares

	Number shareholders	% of total	Number shares	% of interest
1 – 1 000	9 367	84.31	1 754 608	1.52
1 001 – 10 000	1 298	11.68	4 038 808	3.49
10 001 – 100 000	360	3.24	10 821 653	9.36
100 001 and over	85	0.77	99 011 922	85.63
	11 110	100.00	115 626 991	100.00
Shareholder spread				
Public shareholders	11 086	99.78	62 752 738	54.27
Holdings less than 5%	11 086	99.78	62 752 738	54.27
There are no public shareholders that hold 5% or more	-	_	_	_
Non-public shareholders excluding directors and their associates	2	0.03	35 678 222	30.86
Holdings of 5% or less	1	0.01	193 324	0.17
Trustee of the Capitec Bank Holdings Share Trust	1	0.01	193 324	0.17
Holdings of 5% or more	1	0.01	35 484 898	30.69
PSG Financial Services Limited	1	0.01	35 484 898	30.69
Directors (refer to pages 42 to 45 for detail)	22	0.20	17 196 031	14.87
Directors of company or any subsidiaries	4	0.04	36 812	0.03
Associates of directors of company or any of its subsidiaries	18	0.16	17 159 219	14.84
	11 110	100.00	115 626 991	100.00

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

	Number	%	Number	% of
	shareholders	of total	shares	interest
1 – 1 000	440	62.32	150 802	9.01
1 001 – 10 000	231	32.72	736 103	44.00
10 001 – 100 000	35	4.96	785 939	46.99
100 001 and over	_		_	_
Repurchased preference shares ⁽¹⁾		_		_
	706	100.00	1 672 844	100.00
Shareholder spread			,	
Public shareholders	705	99.86	1 651 844	98.74
Holdings less than 5%	705	99.86	1 651 844	98.74
There are no public shareholders that hold 5% or more		_		_
Non-public shareholders excluding directors and their associates	_	_	_	_
Repurchased preference shares held in Capitec account and not yet cancelled	_	_	_	_
Repurchased preference shares ⁽¹⁾	_	_		_
Directors (refer to pages 42 to 45 for detail)	1	0.14	21 000	1.26
None of the directors hold preference shares		_		_
Associates of directors of company or any of its subsidiaries	1	0.14	21 000	1.26
	706	100.00	1 672 844	100.00

Glossary

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

Shareholders' calendar Administration and addresses

Financial year-end Capitec Bank Holdings Limited

28 February 2017 **Registration number**

Profit announcement 1999/025903/06

Tuesday, 28 March 2017 Auditors

Integrated annual report PricewaterhouseCoopers Inc.

April 2017 Directors

Annual general meeting R Stassen (Chairman)

Friday, 26 May 2017 GM Fourie (Chief executive officer)

Interim report AP du Plessis (Chief financial officer)

September 2016 MS du Pré le Roux

RJ Huntley (Ms) (resigned 21 September 2016)

Ordinary dividend NS Mashiya (appointed 1 June 2016)

JSE code: CPI JD McKenzie

ISIN: ZAE 000035861 NS Mjoli-Mncube (Ms)

Final dividend number 26 will be paid on Monday, 24 April 2017 CA Otto

Salient dates for the dividend payment were: G Pretorius (retired 27 May 2016)

Last day to trade cum dividend JP Verster
Tuesday, 18 April 2017 Secretary

Tuesday, 18 April 2017 Secretary

Record date YM Mouton

Friday, 21 April 2017 Registered address

1 Quantum Street, Techno Park, Stellenbosch 7600

Postal address

PO Box 12451, Die Boord, Stellenbosch 7613

Website

www.capitecbank.co.za

