Notes to the annual financial statements

Year ended 29 February 2012

1. Accounting policies

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

Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

1.1 Basis of consolidation

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

Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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.

Transactions and non-controlling interests

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

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 March 2010 when revised IAS 27 *Consolidated and separate financial statements*, became effective for the group.

Previously, transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains and losses in profit or loss, and purchases resulted in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired.

The group has applied a new policy to transactions occurring on or after 1 March 2010. As a consequence, no adjustments to any amounts previously recognised in the financial statements were necessary.

1.2 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with central banks, treasury bills and other eligible bills, amounts due from banks, non-bank money market investments 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.

1.3 Financial instruments

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

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

Management determines the categorisation of its financial instruments at initial recognition and re-evaluates this categorisation at each reporting date.

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

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

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

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

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (1.16.4), and are included in the income statement.

(b) Loans and advances

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

(i) those that the entity intends to sell immediately or in the short term, which are categorised as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(ii) those that the entity upon initial recognition designates as available-for-sale; or
(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

They arise when the group provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are group loans receivable and other receivables. Loans and advances are recognised when funds are advanced to the borrowers.

(c) *Held-to-maturity investments*

The group currently has no held-to-maturity investments. Held-to-maturity investments are 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. Were the group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and re-categorised as available-for-sale.

(d) *Available-for-sale financial assets*

The group currently has no available-for-sale financial assets. Available-for-sale financial assets are assets that management intend to hold on a continuing basis, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets, other than those held at fair value through profit or loss, are initially recognised at fair value plus transaction costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

Refer to note 1.3.4 with reference to hedging instruments.

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

1.3.2 The group categorises its financial liabilities in the following categories:

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

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

(a) *Deposits held at amortised cost*

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

(b) *Deposits held at fair value through profit or loss*

These deposits are fair valued by discounting the value using an appropriate discount rate determined with reference to quoted rates on market instruments with similar credit characteristics and maturities.

Financial liabilities are designated at fair value through profit or loss, where required, in order to eliminate or reduce measurement or recognition inconsistencies that would otherwise arise from measuring liabilities on different bases; or if a group of financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management committee and board of directors.

Gains and losses arising from changes in the fair value of deposits held at fair value through profit or loss are included in the income statement in the period in which they arise.

(c) *Other financial liabilities*

Included within this class of financial liabilities are trade and other payables, provisions and group loans payable that will be settled in cash and cash equivalents. Trade and other payables and group loans payable are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest rate method. Refer to note 1.12 for the accounting policy applied in measuring provisions.

1.3.3 Offsetting financial instruments

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

1.3.4 Derivative financial instruments and hedging activities

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

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

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

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

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 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. 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 ineffective portion is recognised in the income statement within 'movement in financial instruments held at fair value through profit or loss'.

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 41. Movements on the hedging reserve in shareholders' equity are shown in note 17.

1.3.5 Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

1.3.6 Resale agreements

Financial instruments purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans granted under resale agreements and included under cash and cash equivalents or loans and advances as appropriate. The difference between the purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest rate method.

1.4 Impairment of advances

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

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

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

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

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

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

(c) Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

1.4.1 Identified impairment

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

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

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

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

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 90 days are handed over for collection and written off. Recoveries from short-term loans are regarded as negligible as collateral is not required for the granting of advances in the current product range. The estimated recoveries on longer-term loans discounted at the contractual rates are recognised in gross loans and advances.
- Upon write-off the accrual of interest income on the original term of the advance is discontinued.

1.4.2 Incurred but unidentified impairment

In addition to the impairment estimated for assets with recognised objective evidence of impairment, an estimate is made for impairments associated with those assets in the balance sheet that are impaired, but for which objective evidence is not yet available.

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

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

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

1.4.3 Loan write-offs

Clients (and the related impairment allowance accounts) are normally written off in full when they are in arrears for more than 90 days.

1.5 Inventory

Inventory is stated at the lower of the cost or net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Inventory is carried net of rebates. All inventories comprise finished goods.

1.6 Interest-free loans granted

Interest-free group loans with no fixed maturities are viewed as part of the company's investment in subsidiaries and are carried at cost net of impairment.

1.7 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. Secondary tax on companies is calculated in terms of the applicable tax law and disclosed as part of the tax expense on the income statement.

South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, secondary tax on companies (called STC), on distributed income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends is recognised as a taxation charge in the income statement in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle as an STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends to utilise such STC credits.

1.8 Deferred tax

Deferred income tax is provided in full, 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 substantially 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, revaluation of certain financial assets and liabilities 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.

A deferred tax asset is raised on unutilised STC credits, to the extent that these will be used in future years.

1.9 Property and equipment

Land and buildings comprise a sectional title development right and a warehouse. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Banking application hardware	3 – 5 years
• Automated teller machines	8 years
• Computer equipment	3 – 5 years
• Office equipment	5 – 8 years
• Motor vehicles	5 years
• Buildings	25 years

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

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

1.10 Intangible assets

1.10.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1.10.2 Computer software

Acquired computer software licences 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.

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.

1.11 Impairment of non-financial assets

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

1.12 Provisions

Provisions for expenses are obligations of the group for which there is uncertainty as to the timing or amount of the outflow of economic resources. Provisions are recognised when:

- the group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.13 Share capital

1.13.1 Categories of share capital

Authorised share capital consists of:

- ordinary shares, and
- non-redeemable, non-cumulative, non-participating preference shares.

1.13.2 Share issue costs

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

1.13.3 Dividends declared

Dividends on ordinary shares and preference shares are recognised in equity in the period in which they have been approved by the group's directors. Dividends for the year that are declared after the balance sheet date are dealt with in the directors' report.

1.13.4 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.

1.13.5. Unissued shares

An amount of 5% (2011: 5%) of the issued ordinary share capital and all unissued non-redeemable, non-cumulative, non-participating preference shares are under the control of the directors until the next annual general meeting.

1.14 Employee benefits

1.14.1 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.

1.14.2 Share-based compensation

The group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to 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.

1.14.3 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.

1.15 Foreign currency translation

1.15.1 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 rands ("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.

1.15.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

1.16 Revenue recognition

1.16.1 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.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.16.2 Fee income

Transaction fees are recognised on an accrual basis in the period in which the services are rendered. The portion of loan origination fees that relate to the creation of a financial asset together with the related incremental transaction costs are amortised over the term of the loan on an effective yield basis. Transaction and service-related loan fee income is recognised when the services are provided.

1.16.3 Non-banking sales

Non-banking sales represent the net sales value of all products sold to third parties after the deduction of trade discounts. Revenue is recognised when the risks and rewards of ownership have been transferred to the customer. Revenue is recognised net of value added tax.

1.16.4 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.

1.17 Segment reporting

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

1.18 Leases

1.18.1 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.

1.18.2 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.

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

Amendment to IAS 24 Related party disclosures (effective 1 March 2011)

- Improvements to IFRSs 2010 issued in May 2010
- IAS 27 Consolidated and separate financial statements (effective 1 March 2011)

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.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2012 or later periods but which the group has not early adopted, as follows:

- IFRS 9 Financial instruments (effective 1 March 2013)
- Amendments to IAS 12 Deferred tax: recovery of underlying assets (effective 1 March 2012)
- IFRS 10 Consolidated financial statements (effective 1 March 2013)
- IFRS 11 Joint arrangements (effective 1 March 2013)
- IFRS 12 Disclosure of interests in other entities (effective 1 March 2013)
- IFRS 13 Fair value measurement (effective 1 March 2013)
- Amendments to IAS 1 Presentation of items of other comprehensive income (effective 1 March 2013)
- Amendments to IAS 19 Employee benefits (effective 1 March 2013)
- Revised IAS 27 Separate financial statements (effective 1 March 2013)
- Revised IAS 28 Investments in associates and joint ventures (effective 1 March 2013)
- Amendments to IFRS 7 Financial instruments disclosures – transfer of financial assets (effective 1 March 2012)
- Amendment to IFRS 7 Financial instruments disclosure (effective 1 March 2013)

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

2. 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.

Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 1.4 for the accounting policy regarding the impairment of advances.

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

	2012	2011
Expected default rates	**R'000**	**R'000**
Increase by 5%	**23 966**	16 548
Decrease by 5%	**(23 934)**	(16 514)

Property and equipment

Property and equipment are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are based on industry knowledge and past experience with similar assets. Refer to note 1.9 for the accounting policy regarding property and equipment.

3. Segment analysis

The group has two operating segments which conduct business within the Republic of South Africa:

Banking – incorporating retail banking services including savings, deposits, debit cards and consumer loans to individuals. Refer to note 27.2 for the geographical distribution of branches.

Wholesale distribution – consisting of the wholesale distribution of fast moving consumer goods.

There are no clients that account for more than 10% of revenue.

Transactions between the business segments are on normal commercial terms and conditions.

The segment information provided to the executive management committee for the reportable segments is as follows:

	Banking	Wholesale distribution	Adjustment for intra-segment items	Total
	R'000	R'000	R'000	R'000
2012				
Segment revenue [(1)]	7 367 351	217 145	(912)	7 583 584
Segment earnings after tax	1 092 630	1 710	–	1 094 340
The following items are included in ariving at segment earnings after tax:				
Interest income	4 347 814	–	(912)	4 346 902
Interest expense	(1 022 329)	(957)	912	(1 022 374)
Net fee income	2 306 764	–	–	2 306 764
Net impairment charge on loans and advances to clients	(1 604 052)	(138)	–	(1 604 190)
Depreciation	(145 141)	(457)	–	(145 598)
Amortisation	(27 920)	–	–	(27 920)
Other operating expenses	(2 313 257)	(21 885)	–	(2 335 142)
2011				
Segment revenue [(1)]	4 966 768	219 298	(789)	5 185 277
Segment earnings after tax	657 273	(1 249)	–	656 024
The following items are included in ariving at segment earnings after tax:				
Interest income	2 809 332	–	(789)	2 808 543
Interest expense	(751 299)	(850)	789	(751 360)
Net fee income	1 683 595	–	–	1 683 595
Net impairment charge on loans and advances to clients	(988 192)	15	–	(988 177)
Depreciation	(106 647)	(479)	–	(107 126)
Amortisation	(19 571)	–	–	(19 571)
Other operating expenses	(1 686 281)	(22 193)	–	(1 708 474)

[(1)] *Banking segment revenue consists of interest income and fee income on consumer loans, transaction fee income on savings accounts, dividend income and other income. Wholesale distribution revenue consists of sales of fast-moving consumer goods.*

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

4. Cash and cash equivalents

Cash on hand	906 473	710 166	–	–
Bank balances	2 700 281	631 075	18	13
Resale agreements with banks	558 317	669 827	–	–
Money market unit trusts	909	592 570	–	–
Central bank balances				
Mandatory reserve deposits with central bank	385 223	238 280	–	–
	4 551 203	2 841 918	18	13
Maximum exposure to credit risk	4 551 203	2 841 918	18	13
Current	4 551 203	2 841 918	18	13
Non-current	–	–	–	–

Cash on hand is non-interest bearing.

Money market unit trusts are floating rate assets.

Treasury bills are short-term fixed interest securities issued by the South African National Treasury.

Debentures are short-term fixed interest securities issued by the South African Reserve Bank (SARB).

Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a 30-day period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not taken into consideration by the group for cash planning purposes.

The difference between the purchase and resale price of resale agreements with banks is treated as interest. Resale agreements relate to treasury bills issued by the South African National Treasury.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

5. Investments designated at fair value

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Unlisted equity investments at fair value				
Amortised cost	33	3 125	–	–
Cumulative fair value adjustment – other market risk	16 302	13 617	–	–
Balance at the beginning of the year	16 335	16 742	–	–
(Disposals)/ additions	(33)	(3 092)	–	–
Exchange rate risk	3 682	(1 605)	–	–
Other market risk	8 944	1 190	–	–
Realised on disposals	(28 928)	3 100	–	–
Fair value adjustment	(16 302)	2 685	–	–
Amortised cost	–	33	–	–
Cumulative fair value adjustment – other market risk	–	16 302	–	–
Balance at the end of the year	–	16 335	–	–
Interest-bearing debt instruments[1]				
Amortised cost	972 340	1 289 773	–	–
Cumulative fair value adjustment	(11)	(217)	–	–
Balance at the beginning of the year	972 329	1 289 556	–	–
(Disposals)/additions	227 059	(317 433)	–	–
Interest rate risk	(555)	206	–	–
Credit risk	–	–		–
Fair value adjustment	(555)	206	–	–
Amortised cost	1 199 399	972 340	–	–
Cumulative fair value adjustment	(566)	(11)		–
Balance at the end of the year	1 198 833	972 329	–	–
Total investments at fair value	1 198 833	988 664	–	–
Credit risk for financial assets designated at fair value [2]:				
Maximum exposure to credit risk	1 198 833	972 329	–	–
Current	1 198 833	988 664	–	–
Non-current	–	–	–	–

The methods and assumptions applied to calculate the fair value changes due to interest rate risk and exchange rate risk are set out in notes 27.3 and 27.4.

Fair value adjustments are not attributable to changes in credit risk during the year, and cumulatively. The directors' valuation of investments at fair value through profit or loss is equal to the assets' carrying value. This group of financial assets and their performances are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. Information about this group is provided internally on that basis to the management committee and board of directors.

[1] *Interest-bearing instruments comprise unlisted instruments with a maturity greater than three months from date of acquisition. This figure comprises government instruments (2011: government instruments).*

[2] *Exposure to credit risk arises from the interest-bearing debt instruments only.*

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

6. Loans and advances to clients

Maturity analysis of loans and advances				
Demand to one month	1 105 723	895 717	–	–
One to three months	1 184 056	953 143	–	–
Three months to one year	4 464 590	3 419 393	–	–
More than one year	12 145 976	6 017 098	–	–
Total	18 900 345	11 285 351	–	–
Deferred loan fee income	(492 071)	(369 159)	–	–
Gross loans and advances	18 408 274	10 916 192	–	–
Allowance for impaired loans and advances	(1 545 246)	(844 726)	–	–
Net amount (1) (2)	16 863 028	10 071 466	–	–
Credit quality of performing loans and advances (3)				
Top two grades of the internal rating system	7 678 686	1 125 112		
Percentage of total performing loans	44%	11%		
Bottom two grades of the internal rating system	204 987	51 478		
Percentage of total performing loans	1.2%	0.5%		
Impairment of loans and advances				
Gross	17 476 532	10 290 361	–	–
Impairment	(1 015 181)	(512 082)	–	–
Not past due	16 461 351	9 778 279	–	–
Gross	931 742	625 831	–	–
Impairment	(530 065)	(332 644)	–	–
Past due	401 677	293 187	–	–
Net amount	16 863 028	10 071 466	–	–

Past due loans and advances are in arrears from one day to three months and not handed over. All past due loans and advances are impaired. Loans and advances not past due on which an impairment allowance has been raised are treated as fully performing loans and advances.

Included in loans and advances is an investment of R23.8 million (2011: R22.2 million) in cumulative preference shares bearing interest at 80% of the prime interest rate with a redemption date of 15 February 2014.

The remainder of loans and advances comprise unsecured loans to individuals at fixed rates.

(1) Loans and advances are unsecured and the balance constitutes the maximum exposure to credit risk.

(2) Included within loans and advances is related accrued interest receivable of R101.4 million (2011: R58.6 million).

(3) A customer rating system of 7 external classifications and 9 internal classifications is utilised, which in combination with a qualitative category grades a customer into 11 possible scores of which the higher qualifies a customer for a lower-risk product or lower score limits a customer to higher-risk products.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

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

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Movement on provision for impaired advances				
Unidentified losses	512 082	182 171	–	–
Identified losses	332 644	200 162	–	–
Opening balance	844 726	382 333	–	–
Unidentified losses	503 099	329 911	–	–
Identified losses	197 421	132 482	–	–
Movement	700 520	462 393	–	–
Unidentified losses	1 015 181	512 082	–	–
Identified losses	530 065	332 644	–	–
Closing balance	1 545 246	844 726	–	–

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Ageing of impaired advances				
< 60 days	828 008	558 682	–	–
60 – 90 days	103 734	67 149	–	–
	931 742	625 831		

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Exposure to credit risk:				
Loans and advances to clients	18 900 345	11 285 351	–	–
Conditionally revocable retail loan commitments	603 816	549 200	–	–
Maximum exposure to credit risk	19 504 161	11 834 551	–	–

Conditionally revocable retail loan commitments totalling R603.8 million (2011: R549.2 million) are included in the credit risk analysis above. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less.

The 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 18.3% of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within the month.

7. Inventory

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Finished goods	42 079	30 847	–	–
	42 079	30 847	–	–
Current	42 079	30 847	–	–
Non-current	–	–	–	–

The cost of obsolete inventories recognised as an expense and included in cost of sales amounted to Nil (2011: R124 496).

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

8. Other receivables

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Rental deposits	**2 356**	2 931	**–**	–
Accrued income	**28 270**	13 967	**9 657**	9 355
Receivables at fair value through profit or loss (Note 27.10)	**–**	4 662	**–**	–
Derivative (Note 40)	**263**	–	**–**	–
Prepayments	**26 856**	26 617	**–**	–
	57 745	48 177	**9 657**	9 355
Current	**55 589**	46 041	**9 657**	9 355
Non-current	**2 156**	2 136	**–**	–

9. Interest in subsidiaries

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Investment in unlisted subsidiaries at cost	**–**	–	**3 187 311**	2 191 362
Loans to subsidiaries	**–**	–	**16 350**	5 078
	–	–	**3 203 661**	2 196 440

Loans to subsidiaries are interest-free and have no fixed repayment terms. Loans are managed as part of the investment in subsidiaries.

All holdings are in the ordinary and preference share capital of the subsidiary concerned.

Name	Domicile	Holding %	Nature of business
Capitec Bank Limited	South Africa	100%	Banking
Keynes Rational Corporate Services (Pty) Limited	South Africa	100%	Dormant
Capitec Properties (Pty) Limited	South Africa	100%	Property
Keymatrix (Pty) Limited	South Africa	100%	Dormant
Key Distributors (Pty) Limited	South Africa	75%	Wholesale distribution
Capitec Bank Holdings Share Trust	South Africa	–	Share incentive trust
Capitec Bank Group Employee Empowerment Trust	South Africa	–	Employee empowerment trust

10. Property and equipment

GROUP	Land and buildings[1] R'000	Computer Equipment R'000	Office equipment and vehicles R'000	Total R'000
2012				
Opening net book value	**32 846**	**157 084**	**185 255**	**375 185**
Additions	**45**	**180 285**	**135 036**	**315 366**
Disposals	**–**	**(1 300)**	**(532)**	**(1 832)**
Depreciation charge	**(55)**	**(79 249)**	**(66 294)**	**(145 598)**
Net book value at the end of the year	**32 836**	**256 820**	**253 465**	**543 121**
Cost	**33 184**	**473 594**	**547 905**	**1 054 683**
Accumulated depreciation	**(348)**	**(216 774)**	**294 440**	**(511 562)**
Net book value at the end of the year	**32 836**	**256 820**	**253 465**	**543 121**
Current	**–**	**–**	**–**	**–**
Non-current	**32 836**	**256 820**	**253 465**	**543 121**
2011				
Cost	33 139	236 948	331 588	601 675
Accumulated depreciation	(240)	(139 791)	(180 034)	(320 065)
Opening net book value	32 899	97 157	151 554	281 610
Additions	–	113 163	90 007	203 170
Disposals	–	(1 252)	(1 217)	(2 469)
Depreciation charge	(53)	(51 984)	(55 089)	(107 126)
Net book value at the end of the year	32 846	157 084	185 255	375 185
Cost	33 139	332 568	416 505	782 212
Accumulated depreciation	(293)	(175 484)	(231 250)	(407 027)
Net book value at the end of the year	32 846	157 084	185 255	375 185
Current	–	–	–	–
Non-current	32 846	157 084	185 255	375 185

[1] *Land and buildings with a book value of R1.5 million (2011: R1.6 million) are encumbered in terms of a mortgage bond (note 13).*

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

11. Intangible assets

Computer software				
Cost	98 294	70 800	–	–
Accumulated amortisation	(63 937)	(48 589)	–	–
Opening net book value	34 357	22 211	–	–
Additions	65 873	32 193	–	–
Scrappings	(3 048)	(476)	–	–
Amortisation charge	(27 920)	(19 571)	–	–
Net book value at the end of the year	69 262	34 357	–	–
Cost	148 574	98 294	–	–
Accumulated amortisation	(79 312)	(63 937)	–	–
Net book value at the end of the year	69 262	34 357	–	–
Current	–	–	–	–
Non-current	69 262	34 357	–	–

Computer software substantially consists of the primary banking application system.

12. Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2011: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised.

The movement on the deferred income tax account is as follows:				
Balance at the beginning of the year	48 903	19 183	–	–
Cash flow hedge	(602)	(4 811)	–	–
Income statement charge	185 941	34 531	–	–
Balance at the end of the year	234 242	48 903	–	–
Deferred income tax assets are attributable to the following items:				
Provisions and accruals	261 640	70 366	–	–
Cash flow hedge	747	1 349	–	–
Capital allowances	(21 787)	(15 929)	–	–
Prepayments	(6 358)	(6 883)	–	–
	234 242	48 903	–	–
Current	135 854	343	–	–
Non-current	98 388	48 560	–	–

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

13. Loans and deposits at amortised cost

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
By maturity				
Within one month	**6 911 390**	4 414 990	–	–
One to three months	**932 963**	955 228	–	–
Three months to one year	**3 932 021**	1 368 723	–	–
More than one year	**5 915 688**	3 710 942	–	–
	17 692 062	10 449 883	–	–
By nature				
Retail savings	**6 348 206**	3 933 098	–	–
Retail fixed deposits	**4 014 621**	2 315 659	–	–
Wholesale[(1)]	**1 297 275**	928 293	–	–
Subordinated debt – unlisted bonds[(2)]	**499 254**	454 646	–	–
Subordinated debt – listed bonds[(3)]	**591 533**	-	–	–
Listed senior bonds[(4)]	**2 775 944**	1 993 708	–	–
Other unlisted negotiable instruments	**1 998 468**	577 067	–	–
Reserve Bank settlement balance	**166 761**	247 412	–	–
	17 692 062	10 449 883	–	–
Amounts payable on maturity of the funding	**20 547 386**	12 308 648	–	–

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

(1) Wholesale deposits include a mortgage bond of R0.4 million (2011: R0.6 million) that is secured as stated in note 10.

(2) Subordinated unlisted bonds comprise 12-year floating rate bonds. The debt is callable by the bank after seven years. Bonds in the amount of R250 million bear interest at a rate of 3-month JIBAR plus 6.75% for the first seven years and 3-month JIBAR plus 8.00% for the last five years if not called. Bonds in the amount to R200 million bear interest at a rate of 3-month JIBAR plus 5.75% for the first seven years and 3-month JIBAR plus 7.00% for the last five years if not called.

(3) Subordinated listed bonds comprise a seven-year fixed rate bond in the amount of R250 million that bears interest at a rate of 3.91% over the R204 government bond, a seven-year floating rate bond in the amount of R150 million that bears interest at a rate of 4.50% over the 3-month JIBAR rate and a seven-year fixed rate bond in the amount of R175 million that bears interest at a rate of 4.16% over the R204 government bond.

(4) Listed senior bonds consist of domestic medium-term notes. Domestic medium-term notes (nominal value R1 150 million) issued at variable rates are hedged through interest rate swap agreements as set out in notes 17 and 41.

All deposits, with the exception of the mortgage bond (refer [(1)]), are unsecured.

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

14. Other liabilities

	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Trade payables	**222 663**	163 996	**30**	48
Dividends payable	**10 273**	10 485	**10 273**	10 485
Accruals	**264 930**	154 200	**–**	–
Share appreciation rights (Note 38)	**217 362**	154 735	**–**	–
Derivatives (Note 40 and 41)	**3 321**	6 269	**–**	–
	718 549	489 685	**10 303**	10 533
Current	**493 739**	312 046	**10 303**	10 533
Non-current	**224 810**	177 639	**–**	–

15. Provisions

	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Performance incentive scheme				
Balance at the beginning of the year	**14 403**	7 117	**–**	–
Addition	**19 705**	10 923	**–**	–
Used during the year	**(9 110)**	(3 637)	**–**	–
Balance at the end of the year	**24 998**	14 403	**–**	–
Current	**—**	—	**–**	–
Non-current	**24 998**	14 403	**–**	–

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 2014, 2015 and 2016 financial years are included in provisions. The bonus to be paid in the 2013 financial year is included in accruals.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

16. Share capital and premium

	2012	2011	2012	2011
Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	5 000	1 000	5 000	1 000
Non-redeemable, non-cumulative, non-participating preference shares[1]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
	6 000	2 000	6 000	2 000
Issued				
99 282 200 (2011: 93 387 672) shares of R0.01 each at par	993	934	993	934
Share premium	2 925 442	1 917 743	2 925 442	1 917 743
Ordinary share capital and premium	2 926 435	1 918 677	2 926 435	1 918 677
2 869 014 (2011: 2 869 014) shares of R0.01 each at par	29	29	29	29
Share premium	258 940	258 940	258 940	258 940
Non-redeemable, non-cumulative, non-participating preference share capital and premium[1]	258 969	258 969	258 969	258 969
Total issued share capital and premium[2][3]	3 185 404	2 177 646	3 185 404	2 177 646

No ordinary or preference shares were cancelled in the current or prior year.

All issued ordinary and preference shares are fully paid up.

[1] *The preference shares carry a coupon rate of 75% of the prime overdraft rate on a face value of R100 per share.*
[2] *Refer to note 33 for detail regarding the issue of shares to settle share options.*
[3] *Nil (2011: 2 905 912) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares that were placed under the control of the directors until the next annual general meeting remained at year-end.*

The shares held by the share incentive trust for the purpose of settling share options issued to employees in terms of the group share incentive scheme are reflected as a deduction against equity at cost to the group.

During the year a loss of R186.1 million (R43.2 million after tax) (2011: R108.3 million, R80.7 million after tax) was realised on settlement of share options as reflected in the statement of changes in shareholders' equity.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

17. Cash flow hedge reserve

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Cash flow hedge reserve/(loss)[1]				
Balance at the beginning of the year	(3 469)	(15 839)	–	–
Amount recognised in comprehensive income during the year	(4 916)	(4 822)	–	–
Amount reclassified from comprehensive income and included in profit and loss for the year	7 067	22 003	–	–
	(1 318)	1 342	–	–
Deferred tax recognised in comprehensive income during the year	(602)	(4 811)	–	–
Balance at the end of the year	(1 920)	(3 469)	–	–

1) The hedging reserve is released to the income statement on realisation of the domestic medium-term notes interest expense. Refer to note 41 for additional disclosure.

18. Net interest income

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Loans and advances to clients	4 188 980	2 648 588		
Non-bank money market placements	17	38	–	–
Money market funds	62 894	30 480	–	–
Treasury bills	10 485	12 892	–	–
Bank balances	761	436	–	–
Resale agreements with banks	30 705	22 393	–	–
Central bank balances	3 989	6 834		
Cash and cash equivalents	108 851	73 073	–	–
Interest-bearing instruments	49 071	86 882	–	–
Interest income	4 346 902	2 808 543	–	–
			–	–
Retail savings	(243 532)	(162 700)		
Retail fixed deposits	(222 946)	(153 173)		
Wholesale	(125 292)	(107 585)	–	–
Subordinated debt	(71 629)	(43 922)	–	–
Domestic Medium Term Note	(271 103)	(240 023)	–	–
Negotiable deposits	(87 855)	(43 888)		
Forward foreign exchange contracts	(17)	(69)	–	–
Interest expense	(1 022 374)	(751 360)	–	–
Net interest income	3 324 528	2 057 183	–	–

Included in interest income is R35.3 million (2011: R30.0 million) with respect to interest income accrued on impaired financial assets.

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

19. Dividend income

Ordinary dividends	–	–	317 939	201 882
Preference dividends	–	–	19 419	15 754
Subsidiaries	–	–	337 358	217 636
Investments at fair value through profit or loss	1 532	571	–	–
	1 532	571	337 358	217 636

20. Net impairment charge on loans and advances to clients

Bad debts	1 079 237	626 199	–	–
Movement in impairment allowance	700 520	462 393	–	–
Bad debts recovered	(175 567)	(100 415)	–	–
Net impairment charge	1 604 190	988 177	–	–

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

Change in fair value due to changes in credit risk	–	–	–	–
Change in fair value due to other factors	12 070	(210)	–	–
Financial assets held at fair value through profit or loss	12 070	(210)	–	–

The methods and assumptions applied to calculate the fair value changes due to credit risk are set out in Note 27.10 and credit risk mitigation techniques are set out in Note 27.1.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

22. Operating profit before tax

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

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Loss/(Profit) on disposal of equipment	**596**	(638)	–	–
Loss on scrapping of intangibles	**3 048**	476	–	–
Depreciation on fixed assets	**145 598**	107 126	–	–
Amortisation of computer software	**27 920**	19 571	–	–
Foreign exchange (gains)/losses [(1)]	**(3)**	(1)	–	–
Operating lease rentals				
Land and buildings	**163 588**	127 054	–	–
Office equipment	**3 160**	3 076	–	–
	166 748	130 130	–	–
Income from subletting	**(2 529)**	(2 086)	–	–
Auditors' remuneration				
Audit fees – current year	**2 681**	2 622	–	–
Audit fees – prior year (over)/underprovision	**166**	(584)	–	–
Other services	**228**	205	–	85
Less: Other services accounted for in equity	–	(85)	–	(85)
	3 075	2 158	–	–
Directors' emoluments (included in employee costs below)				
Executive				
Salaries	**13 044**	10 876	–	–
Fringe benefits	**475**	420	–	–
Bonuses	**1 916**	4 169	–	–
Share appreciation rights	**46 288**	46 172	–	–
Share options	**4 482**	2 236	–	–
Non-executive				
Fees	**2 853**	2 585	–	–
Employee costs				
Salaries and wages	**1 129 445**	796 680	–	–
Equity-settled share-based payment	**11 778**	11 706	–	–
Cash-settled share appreciation rights	**123 613**	121 503	–	–
Social security cost	**24 522**	18 181	–	–
Training cost	**40 488**	27 729	–	–
Training refund	**(5 287)**	(3 318)	–	–
	1 324 559	972 481	–	–
Consultancy fees relating to non-employees comprise:				
Managerial services	**76**	646	–	–
Secretarial services	**4 432**	891	**625**	439
Technical	**13 900**	7 637	–	–
Administrative	**7 988**	4 904	–	–
	26 396	14 078	**625**	439

[(1)] *Excludes change in fair value of financial assets through profit or loss as per note 5.*

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

23. Income tax expense

Normal company tax	615 889	297 044	–	–
Secondary tax on companies	33 584	21 763	–	–
Current tax	649 473	318 807	–	–
Normal company tax	(185 941)	(34 531)	–	–
Deferred tax	(185 941)	(34 531)	–	–
	463 532	284 276	–	–

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

Profit before tax	1 557 872	940 300	337 358	217 606
Tax calculated at a tax rate of 28%	436 204	263 284	94 460	60 930
Secondary tax on companies	33 584	21 763	–	–
Adjustments for prior periods	(8)	(238)	–	–
Income not subject to tax	(5 854)	(613)	(94 460)	(60 930)
Expenses not deductible for tax purposes	128	3	–	–
Withholding tax	8	6	–	–
Movement in unutilised tax losses	(530)	71	–	–
Income tax expense	463 532	284 276	–	–
Estimated tax losses at year-end available for utilisation against future taxable income	12 814	14 703	212	238
Less: Applied in raising a deferred tax asset	–	–	–	–
Net calculated tax losses carried forward	12 814	14 703	212	238
Tax relief calculated at current tax rates	4 928	5 512	59	67

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

	GROUP 2012 R'000	GROUP 2011 R'000

24. Earnings per share

Basic earnings per share is calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

	2012 R'000	2011 R'000
Net profit after tax	**1 094 340**	656 024
Preference dividend	**(19 419)**	(15 754)
Net profit after tax attributable to ordinary shareholders	**1 074 921**	640 270
Weighted average number of ordinary shares in issue (thousands)	**95 790**	84 565
Basic earnings per share (cents)	**1 122**	757

Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue, adjusted to assume conversion of all potentially dilutive ordinary shares. For 2012 and 2011 potentially dilutive ordinary shares consisted only of share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2012 R'000	2011 R'000
Net profit used to determine diluted earnings per share	**1 074 921**	640 270
Weighted average number of ordinary shares in issue (thousands)	**95 790**	84 565
Adjustment for:		
Exercise of share options	**2 271**	3 088
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**98 061**	87 653
Diluted earnings per share (cents)	**1 096**	730

	GROUP 2012 R'000	GROUP 2011 R'000

25. Headline earnings per share attributable to ordinary shareholders

	2012 R'000	2011 R'000
Net profit attributable to ordinary shareholders	**1 074 921**	**640 270**
Non-headline items		
Loss/(Profit) on disposal of property and equipment	**596**	(638)
Income tax charge – property and equipment	**(192)**	193
Loss on scrapping of intangible assets	**3 048**	476
Income tax charge – intangible assets	**(853)**	(133)
Headline earnings	**1 077 520**	640 168
Basic headline earnings per share (cents)	**1 125**	757
Diluted headline earnings per share (cents)	**1 099**	730

26. Dividend per share

The directors declared a final dividend in respect of 2012 of 300 cents per share (2011: 205 cents per share) amounting to a dividend of R297.8 million (2011: R193.8 million) on 1 March 2012 .

The secondary tax on companies in respect of this dividend will amount to R29.8 million (2011 R19.1 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 2013, which is in line with recommended accounting practice.

An interim dividend of 125 cents per share (2011: 85 cents per share) was declared on 27 September 2011 and paid on 5 December 2011.

27. Financial risk management

The financial instruments carried on the balance sheet are set out in note 27.9.

The group views risk management as a measure of ensuring a responsible return on shareholders' equity. Ultimately, the board remains responsible for risk management. To assist them in performing this duty, the company is managed through a system of internal controls functioning throughout the entity so that an awareness of risk pervades every aspect of the business and is seen as the responsibility of each employee of the group. The board has established a risk and capital management committee comprising four independent non-executive directors. The committee has a formal charter in accordance with which it assists the board in reviewing the processes followed to identify risk and considering such risks in the group environment. The committee also assists the board in ensuring that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly.

Subcommittees, comprising executives and senior management, have been established to deal in a structured manner with specific risks facing the company:

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

The 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 with weightings on impact and probability assigned. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

27.1 Credit risk

Loans and advances are disclosed net of impairment allowances.

Retail

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

The maximum capital advanced in terms of any one personal loan is R150 000 (2011: R120 000). At balance sheet date the number of outstanding loans was 1 375 508 (2011: 1 203 807).

Wholesale

The group only invests centrally managed cash surpluses in cash and liquid assets with the SARB, South African registered banking entities and money market funds of high credit standing. Potential exposure to counterparty concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 4 and 5). Exposure to counterparty credit risk is controlled using alco approved limits which are monitored and enforced by the credit committee. This ensures that the financial assets that the 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 Fitch.

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

	Notes	AAA-A R'000	BBB R'000	Below BBB R'000	Not rated R'000	Total carrying amount R'000
2012						
Cash on hand	4	906 473	–	–	–	906 473
Bank balances	4	1 639 902	1 060 374	–	5	2 700 281
Resale agreements with banks	4	–	558 317	–	–	558 317
Money market instruments	4	–	–	–	909	909
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances	4	385 223	–	–	–	385 223
Treasury bills (> 3 months)	5	1 198 833	–	–	–	1 198 833
		4 130 431	1 618 691	–	914	5 750 036
2011						
Cash on hand	4	710 166	–	–	–	710 166
Bank balances	4	267 640	363 474	–	(39)	631 075
Resale agreements with banks	4	–	669 827	–	–	669 827
Money market instruments	4	–	–	–	592 570	592 570
Treasury bills (< 3 months)	4	–	–	–	–	–
Central bank balances	4	238 280	–	–	–	238 280
Treasury bills (> 3 months)	5	972 329	–	–	–	972 329
		2 188 415	1 033 301	–	592 531	3 814 247

The bank balances were with 18 institutions (2011: 10), with the maximum exposure to one institution being R1 514 million (2011: R1 096 million). This exposure consists of government instruments.

Money market instruments consist of interest accrued on money market unit trust investments that were realised during February 2012. The placements were with two institutions (2011: eight).

27.2 Geographical concentration of operations

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

Capitec Bank branches are distributed across South Africa and at year-end the breakdown by province was as follows:

	2012	2011
Eastern Cape	**61**	55
Free State	**31**	27
Gauteng	**140**	123
KwaZulu-Natal	**79**	74
Limpopo	**40**	31
Mpumalanga	**41**	44
North West	**27**	28
Northern Cape	**18**	13
Western Cape	**70**	60
	507	455

27.3 Interest rate risk

The group operates within the ambit of the National Credit Act when considering interest rates on the advancing of short-term personal loans.

The current group interest profile is uncomplicated and is monitored by the assets and liabilities committee (alco). Management 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.

Financial assets and liabilities are accounted for, in the main, on an amortised cost basis and therefore the income statement is not significantly impacted by fair value interest rate risk. The return on surplus cash balances placed in call money market accounts varies with changes in interbank interest rates as does the interest payable on floating rate bond liabilities and some retail deposits, resulting in cash flow interest rate risk. Floating rate bond liabilities may be hedged using interest rate swaps in order to match positions. The use of interest rate swaps mitigates the changes in cash flows of variable rate bonds issued by the group. The objective is to protect the group from uncontrolled changes in future interest cash flow commitments that arise from changes in market interest rates and re-borrowing of current balances that can have a negative impact on the value of the business and annual earnings. The use of interest rate swaps has the economic effect of converting borrowings from floating rates to fixed rates. Under the terms of the interest rate swaps, the group agrees with other banking entities to exchange, quarterly, the difference between fixed contractual rates and floating rate interest amounts calculated by reference to the agreed notional amounts. The group has discretion over the rates offered on its demand savings deposits. Retail advances are only offered in fixed rate terms. The maturity breakdown of the advances book is set out in note 6 and note 27.6.

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.

27.3 Interest rate risk *(continued)*

The sensitivity analysis presented below is a run-off analysis.

The sensitivity analysis below reflects the impact of a 200 basis point increase or decrease in interest rates:

- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, retail savings deposits, floating bond liabilities)
- Assets and liabilities accounted for at fair value through profit and loss
- On balance sheet at the reporting date.
- The movement in rates was applied as a parallel shift in the applicable yield curves

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

	Impact on income statement				Impact on equity			
	2012		2011		2012		2011	
200 basis points	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000	Pre-tax R'000	Post-tax R'000
Increase	**(111 592)**	**(80 346)**	(65 331)	(47 038)	**(82 223)**	**(60 133)**	(63 517)	(46 664)
Decrease	**111 592**	**80 346**	65 330	47 038	**82 223**	**60 133**	63 516	46 664

27.4 Currency risk

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

27.5 Other market risk

There is no exposure to other pricing risk.

27.6 Liquidity risk

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

The table below analyses assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at balance sheet date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet, are excluded. Refer to note 34.
- Conditionally revocable retail loan commitments totalling R603.8 million (2011: R549.2 million) are not included in the liquidity analysis below. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment term of one month or less.
- The group's contractual commitment is revocable should a client not meet his/her obligations or where the group has determined that a client's credit risk profile has changed. A total of 18.3% of these commitments is expected to be drawn down within one month. As these are one-month loans, repayment of any future drawdowns must also occur within one 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.

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows)	Notes	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
2012							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	–	–	–	–	–	–
Cash and cash equivalents – banks	4	4 538 222	15 274	–	–	–	4 553 496
Cash and cash equivalents – corporate money markets unit trusts	4	909	–	–	–	–	909
Investments at fair value through profit or loss	5	48 290	75 000	1 127 060	–	–	1 250 350
Loans and advances to clients – retail personal	6	1 504 581	2 052 357	7 650 217	17 724 937	(492 071)	28 440 021
Loans and advances to clients – retail other	6	802	–	–	–	–	802
Loans and advances to clients – corporate other	6	14 438	–	–	23 781	–	38 219
Other receivables	8	28 733	–	–	2 156	–	30 889
Current income tax assets		–	–	62 331	–	–	62 331
Undiscounted assets		6 135 975	2 142 631	8 839 608	17 750 874	(492 071)	34 377 017
Adjustments for undiscounted assets		(417 208)	(869 345)	(3 236 192)	(5 602 742)	–	(10 125 487)
Discounted assets							
Loan impairment provision	6	(130 479)	(237 420)	(493 418)	(683 929)	–	(1 545 246)
Total discounted assets		5 588 288	1 035 866	5 109 998	11 464 203	(492 071)	22 706 284
Undiscounted liabilities							
Loans and deposits at amortised cost	13	6 916 087	1 015 697	4 350 825	8 264 777	–	20 547 386
Trade and other payables	14	277 809	116 671	99 259	145 849	78 997	718 585
Current income tax liabilities		–	885	–	–	–	885
Provisions	15	–	–	–	24 998	–	24 998
Undiscounted liabilities		7 193 896	1 133 253	4 450 084	8 435 624	78 997	21 291 854
Adjustments for undiscounted liabilities to depositors		(4 697)	(82 745)	(418 893)	(2 349 025)	–	(2 855 360)
Total discounted liabilities		7 189 199	1 050 508	4 031 191	6 086 599	78 997	18 436 494
Net liquidity excess/(shortfall)		(1 600 911)	(14 642)	1 078 807	5 377 604	(571 068)	4 269 790
Cumulative liquidity excess/(shortfall)		(1 600 911)	(1 615 553)	(536 746)	4 840 858	4 269 790	4 269 790

27.6 Liquidity risk *(continued)*

Maturities of financial assets and financial liabilities (discounted cash flows)	Notes	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
2011							
Undiscounted assets							
Cash and cash equivalents	4	2 841 918	–	–	–	–	2 841 918
Investments at fair value through profit or loss	5	225 744	248 810	537 500	–	–	1 012 054
Undiscounted assets		3 067 662	248 810	537 500	–	–	3 853 972
Adjustments for undiscounted assets		(411)	(2 847)	(20 132)	–	–	(23 390)
Discounted assets							
Loans and advances to clients	6	895 717	953 143	3 419 393	6 017 098	(369 159)	10 916 192
Loan impairment provision	6	(105 764)	(199 336)	(441 602)	(98 024)	–	(844 726)
Other receivables	8	14 762	–	4 662	2 136	–	21 560
Total discounted assets		3 871 966	999 770	3 499 821	5 921 210	(369 159)	13 923 608
Undiscounted liabilities							
Loans and deposits at amortised cost	13	4 419 413	1 013 657	1 673 440	5 202 138	–	12 308 648
Trade and other payables	14	214 280	45 838	51 928	119 367	58 333	489 746
Current income tax liabilities		986	–	34 047	–	–	35 033
Provisions	15	–	–	–	14 403	–	14 403
Undiscounted liabilities		4 634 679	1 059 495	1 759 415	5 335 908	58 333	12 847 830
Adjustments for undiscounted liabilities to depositors		(4 423)	(58 490)	(304 717)	(1 491 196)	–	(1 858 826)
Total discounted liabilities		4 630 256	1 001 005	1 454 698	3 844 712	58 333	10 989 004
Net liquidity (shortfall)/excess		(758 290)	(1 235)	2 045 123	2 076 498	(427 492)	2 934 604
Cumulative liquidity (shortfall)/excess		(758 290)	(759 525)	1 285 598	3 362 096	2 934 604	2 934 604

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 and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.

27.7 Capital management

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

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

The group conducts a Capitec internal capital adequacy assessment process (CICAAP) on an ongoing basis, which drives the group's position on capital management matters. The CICAAP reviews the historic, current and future capital positioning of the group, both from an internal and regulatory capital perspective.

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

	GROUP		BANK	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000
Ordinary share capital	2 926 435	1 918 677	3 380 895	2 384 427
Accumulated profit	2 001 866	1 276 336	1 210 468	577 213
Preference share capital	258 969	258 969	258 969	258 969
Intangible assets in terms of IFRS	(69 258)	(34 357)	(69 258)	(34 357)
Specified advances	(28 063)	(22 153)	(28 063)	(22 153)
Unappropriated profit	(275 094)	(47 842)	(275 094)	(47 842)
Total regulatory adjustments	(372 415)	(104 352)	(372 415)	(104 352)
Primary (Tier 1) capital	4 814 855	3 349 630	4 477 917	3 116 257
Unidentified impairments	175 987	108 441	175 987	108 441
Subordinated debt	1 069 000	450 000	1 069 000	450 000
Secondary (Tier 2) capital	1 244 987	558 441	1 244 987	558 441
Total qualifying regulatory capital	6 059 842	3 908 071	5 722 904	3 674 698
Primary %	31.0	35.4	28.9	32.7
Secondary %	8.0	5.9	8.0	5.9
Total capital adequacy % (1) (2)	39.0	41.3	36.9	38.6
Composition of required regulatory capital				
On balance sheet	1 334 286	820 998	1 337 388	824 030
Off balance sheet	–	–	112	122
Credit risk	1 334 286	820 998	1 337 500	824 152
Operational risk	80 615	28 604	80 779	28 695
Equity risk in banking book	–	1 552	–	1 552
Other assets	61 906	47 755	55 357	50 037
Total regulatory capital requirement (3)	1 476 807	898 909	1 473 636	904 436

	GROUP		BANK	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

27.7 Capital management *(continued)*

Composition of risk-weighted assets (4)				
On balance sheet	**14 045 118**	8 642 086	**14 077 773**	8 674 003
Off balance sheet	**–**	–	**1 182**	1 283
Credit risk	**14 045 118**	8 642 086	**14 078 955**	8 675 286
Operational risk	**848 574**	301 094	**850 303**	302 056
Equity risk in the banking book	**–**	16 335	**–**	16 335
Other assets	**651 640**	502 681	**582 700**	526 707
Total risk-weighted assets	**15 545 332**	9 462 196	**15 511 958**	9 520 384
Total assets based on IFRS	**23 621 844**	14 439 517	**23 583 053**	14 498 054
Total risk-weighted assets – adjustments (5)	**(8 076 512)**	(4 977 321)	**(8 071 095)**	(4 977 670)
Total risk-weighted assets – regulatory	**15 545 332**	9 462 196	**15 511 958**	9 520 384

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

(2) *The CAR% calculations incorporate a calculation change in line with standard Basel practice. The risk-weighted asset/equivalent for operational risk included in the divisor is now as per the Alternative Standardised Approach calculation for retail banking. The previous method calculated the risk-weighted asset/equivalent for operational risk as the inverse of the operational risk floor. There has been no change by the regulator to the capital requirement. The comparative has been restated.*

(3) *This value is reported in terms of the Banks Act circular 5/2011. It excludes the required regulatory capital amount relating to the bank-specific buffer (Basel pillar 2b add-on). The value disclosed is 9.5% of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.5%.*

(4) *Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.*

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

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

	Notes	Held for trading	Designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Total
		R'000	R'000	R'000	R'000	R'000
2012						
Interest income	18	–	49 071	4 297 831	–	4 346 902
Interest expense	18	(17)	–	–	(1 022 357)	(1 022 374)
Loan fee income		–	–	1 657 018	–	1 657 018
Loan fee expense		–	33 820	(220 180)	–	(186 360)
Transaction fee income		–	–	–	1 360 308	1 360 308
Transaction fee expense		–	–	–	(524 202)	(524 202)
Dividend income	19	–	1 532	–	–	1 532
Net impairment on loans and advances to clients	20	–	–	(1 604 190)	–	(1 604 190)
Net movement in financial instruments held at fair value through profit or loss	21	–	12 070	–	–	12 070
2011						
Interest income	18	–	86 882	2 721 661	–	2 808 543
Interest expense	18	(69)	–	–	(751 291)	(751 360)
Loan fee income		–	–	1 273 574	–	1 273 574
Loan fee expense		–	(3 757)	(117 953)	–	(121 710)
Transaction fee income		–	–	–	883 040	883 040
Transaction fee expense		–	–	–	(351 309)	(351 309)
Dividend income	19	–	571	–	–	571
Net impairment on loans and advances to clients	20	–	–	(988 177)	–	(988 177)
Net movement in financial instruments held at fair value through profit or loss	21	–	(210)	–	–	(210)

27.9 Classification of financial assets and financial liabilities

	Notes	Held for trading R'000	Held at fair value R'000	Loans and receiv-ables R'000	Available for sale R'000	Financial liabilities at amortised cost R'000	Total R'000	Fair value R'000
2012								
Financial assets								
Cash and cash equivalents	4	–	–	4 551 203	–	–	4 551 203	4 551 203
Investments at fair value through profit or loss	5	–	1 198 833*	–	–	–	1 198 833	1 198 833
Loans and advances to clients	6	–	–	16 863 028	–	–	16 863 028	17 016 644
Other receivables	8	263	–	30 626	–	–	30 889	30 418
Financial liabilities								
Loans and deposits at amortised cost	13	–	–	–	–	17 692 062	17 692 062	17 818 558
Trade and other payables	14	–	3 321#	–	–	715 228	718 549	718 107
Provisions	15	–	–	–	–	24 998	24 998	24 998
2011								
Financial assets								
Cash and cash equivalents	4	–	–	2 841 918	–	–	2 841 918	2 841 918
Investments at fair value through profit or loss	5	–	988 664*	–	–	–	988 664	988 664
Loans and advances to clients	6	–	–	10 071 466	–	–	10 071 466	10 251 002
Other receivables	8	–	4 662	16 898	–	–	21 560	21 046
Financial liabilities								
Loans and deposits at amortised cost	13	–	–	–	–	10 449 883	10 449 883	10 519 902
Trade and other payables	14	–	6 269#	–	–	483 416	489 685	489 898
Provisions	15	–	–	–	–	14 403	14 403	14 403

** Designated at fair value through profit or loss*

 # Cash flow hedge

27.10 Fair value hierarchy

Valuation of assets and liabilities

The fair value of financial liabilities is calculated by discounting the contractual cash flows based on an appropriate market-related rate. The market-related rate is determined with reference to the movement in the risk-free rate for the remaining duration of the liabilities and adjusted for any movement in the risk premium as determined through the judgement of management taking into account their knowledge of the market including recent transactions and developments.

The difference in the present value for assets and liabilities, based on the risk premium determined at the later of the start of the financial year or the inception of the instrument compared to the risk premium at the earlier of year-end or derecognition of the financial liability is determined to be the change in fair value attributable to credit risk for the current year.

Financial assets are valued based on the nature of the item. Listed financial assets are valued with reference to the closing bid price.

Unlisted debt instruments are valued by discounting expected cash flows based on an appropriate market-related rate. The discount rate is determined as for financial liabilities, but the cash flows are adjusted for expected future service costs.

Unlisted equity instruments that will be converted to listed instruments are valued with reference to the current market value of the listed instrument, adjusted for the time to and conditions of conversion and the existence of alternative markets such as over-the-counter markets.

Other unlisted equity instruments are valued taking into account factors such as net asset value, expected cash flows, expected profitability and appropriate price/earnings ratios.

Valuation techniques for derivatives are set out in accounting policy note 1.3.4.

Receivables at fair value through profit or loss consist of a profit share on a credit life and retrenchment insurance policy. Total gains or losses for the period included in profit or loss are presented in loan fee expenses on the income statement. The profit share is determined in terms of the insurance contract and includes an estimate of the unreported claims as at the end of the period.

A 10% change in the estimate of unreported claims would have an impact of R4.4 (2011: R0.5 million) on the fair value of the receivable.

IFRS 7 specifies a hierarchy of valuation techniques for assets and liabilities measured at fair value based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's market assumptions.

These two types of inputs have created the following fair value hierarchy:
Level 1 – Quoted prices in active markets for identical assets and liabilities
Level 2 – Inputs other than prices or indirectly by derivation from prices
Level 3 – Inputs for the asset or liability that are not based on observable market data

The group considers relevant and observable market prices where possible.

27.10 Fair value hierarchy *(continued)*

Assets and liabilities measured at fair value

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2012				
Investments at fair value through profit or loss	–	**1 198 833**	–	**1 198 833**
Total assets	–	**1 198 833**	–	**1 198 833**
Trade and other payables	–	**3 321**	–	**3 321**
Total liabilities	–	**3 321**	–	**3 321**
2011				
Investments at fair value through profit or loss	–	988 664	–	988 664
Receivables at fair value through profit or loss	–	–	4 662	4 662
Total assets	–	988 664	4 662	993 326
Trade and other payables	–	6 269	–	6 269
Total liabilities	–	6 269	–	6 269

Reconciliation of receivables at fair value through profit or loss

	2012 R'000	2011 R'000
Balance at the beginning of the year	**4 662**	8 419
Gains and losses recognised in profit or loss	**33 820**	(3 757)
Settlements	**(38 482)**	–
Balance at the end of the year	–	4 662

28. Retirement benefits

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and wages as per note 22.	**57 272**	38 978	–	–

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.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000

29. Related-party transactions

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Transactions with subsidiaries				
Investments in subsidiaries are disclosed in note 9.				
Dividend received				
Ordinary dividend	–	–	**317 939**	201 882
Preference dividend	–	–	**19 419**	15 754
Capitec Bank Limited	–	–	**337 358**	217 636
Management fees received				
Capitec Bank Limited	–	–	**932**	702
Loans due from:				
Capitec Bank Limited	–	–	**16 351**	5 079
Loans due to:				
Keymatrix (Pty) Limited	–	–	**1**	1

Guarantees (1)

Key Distributors received a guarantee from a fellow subsidiary, Capitec Bank Limited. The value guaranteed is R4.4 million (2011: R4.4 million).

The balance outstanding at year-end that is covered amounted to R2.4 million (2011: R2.6 million). A market-related guarantee fee of R70 830 (2011: R83 182) was paid by Key Distributors (Pty) Limited to Capitec Bank Limited.

Capitec Bank Holdings Limited

An intra-group unlimited suretyship provided in favour of a financial institution in respect of operating facilities of Capitec Bank Limited with a maximum exposure of R5.6 million (2011: R0.7 million).

A suretyship limited to R0.6 million (2011: R0.6 million) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
PSG Group and subsidiaries (2)				
Brokers' fees	**46**	63	–	–
Sponsor fees	**72**	63	**72**	63
Commitment fees	–	16 844	–	16 844
Loans and advances to directors and other key management employees included in loans and advances to clients				
Loans outstanding at the beginning of the year	**5 714**	2 742	–	–
Loans advanced during the year	**3 431**	6 043	–	–
Interest charged on loans during the year	**514**	400	–	–
Loan repayments during the year	**(5 515)**	(3 471)	–	–
Loans outstanding at the end of the year	**4 144**	5 714	–	–
Less advanced by subsidiaries	**(4 144)**	(5 714)	–	–

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
29. Related-party transactions *(continued)*				
Retail deposits from directors and other key management employees [3]			–	–
Deposits at the beginning of the year	**3 174**	4 001	–	–
Interest earned during the year	**231**	284	–	–
Deposits/(withdrawals) made during the year	**1 555**	(1 111)	–	–
Deposits at the end of the year	**4 960**	3 174	–	–
			–	–
Key management compensation [4]				
Salaries and other short-term benefits	**22 439**	23 413		
Post-employment benefits	**1 568**	1 866	–	–
Share-based payments	**47 420**	42 293	–	–
Key management compensation paid by subsidiaries	**71 427**	67 572	–	–

[1] *Key Distributors' creditors are included in the group balance sheet on consolidation.*

[2] *PSG Capital is the corporate advisor and sponsor of the group. Transactions requiring the purchase of financial instruments on the open market are conducted through a number of intermediaries.*

[3] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

[4] *Key management are considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration. Refer to the directors' report for details of directors' remuneration.*

Directors

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. Details relating to directors' emoluments, shareholdings and share options granted are included in the directors' report.

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

30. Cash flow from operations

Net profit before tax	**1 557 872**	940 300	**337 358**	217 606
Adjusted for non-cash items				
Fair value adjustments on financial assets	**(12 070)**	209	**–**	–
Loan impairment charge	**700 520**	462 393	**–**	–
Depreciation	**145 598**	107 126	**–**	–
Amortisation	**27 920**	19 571	**–**	–
Movements in provisions	**10 595**	7 286	**–**	–
Share-based employee costs – share options	**11 778**	11 706	**–**	–
Share-based costs – share appreciation rights	**62 627**	121 504	**–**	–
(Profit)/loss on disposal of assets	**3 644**	(162)	**–**	–
Receivables at fair value through profit or loss	**4 662**	3 757	**–**	–
Movements in current assets and liabilities				
Loans and advances to clients	**(7 492 082)**	(5 308 720)	**–**	–
Inventory	**(11 232)**	(4 780)	**–**	–
Other receivables	**(14 230)**	(10 807)	**(302)**	(2 778)
Deposits	**7 242 179**	3 089 558	**–**	–
Trade and other payables	**168 599**	23 466	**(18)**	–
Cash flow from operations	**2 406 380**	(537 593)	**337 038**	214 828

31. Income taxes paid

Balance at the beginning of the year	**35 033**	34 452	**–**	–
Income statement charge	**463 532**	284 276	**–**	–
Movement in deferred tax	**185 941**	34 531	**–**	–
Tax effect on settlement of share options taken to equity	**(142 886)**	(27 587)	**–**	–
Balance at the end of the year	**61 446**	(35 033)	**–**	–
Income tax paid	**603 066**	290 639	**–**	–

32. Dividends paid

Balance at the beginning of the year	**10 485**	6 941	**10 485**	6 577
Dividend declared during the year:				
Ordinary dividend	**317 939**	201 882	**317 939**	201 882
Preference dividend	**19 419**	15 754	**19 419**	15 754
Balance at the end of the year	**(10 273)**	(10 485)	**(10 273)**	(10 485)
Dividends paid	**337 570**	214 092	**337 570**	213 728

	GROUP		COMPANY	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

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

1 249 576 (2011: 1 227 212) ordinary shares issued	(220 505)	(127 169)	–	–
Shares acquired	(702)	(4 422)	–	–
Fair value of shares utilised to settle share options	(221 207)	(131 591)	–	–
Proceeds on settlement of options	35 091	23 255	–	–
	(186 116)	(108 336)	–	–

34. Commitments and contingent liabilities

Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within one year	167 995	129 070	–	–
From one to five years	470 288	357 702	–	–
After five years	99 694	54 331	–	–
Total future cash flows	737 977	541 103	–	–
Straight-lining accrued	(35 749)	(25 354)	–	–
Future expenses	702 228	515 749	–	–
Other operating lease commitments				
Within one year	2 253	1 988	–	–
From one to five years	5 083	5 093	–	–
	7 336	7 081	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	85 195	29 609	–	–
Intangible assets	6 744	–	–	–
Not contracted for				
Property and equipment	458 247	417 556	–	–
Intangible assets	122 329	88 212	–	–
	672 515	535 377	–	–

Capitec Bank Holdings Limited

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A suretyship limited to R0.6 million (2011: R0.6 million) in favour of a financial institution with which Key Distributors (Pty) Limited has a mortgage bond.

35. Borrowing powers

In terms of the articles of association 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 3 June 2011 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company, on the terms and conditions and for the amount that the board may determine.

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

36. Share incentive scheme

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

The bank allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2011: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2011: 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 share incentive scheme prescribes that European type options, with durations ranging from three to six years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE Limited prior to the date of allocation.

	2012 Number	2011 Number
Options issued to employees of Capitec Bank Limited		
Balance at the beginning of the year	**4 221 594**	5 322 184
Options granted	**138 000**	182 736
Options cancelled and/or lapsed	**(19 375)**	(12 500)
Options exercised	**(1 253 326)**	(1 270 826)
Balance at the end of the year	**3 086 893**	4 221 594

36. Share incentive scheme *(continued)*

Analysis of outstanding share options by year of maturity	2012 Weighted average strike price R	2012 Number	2011 Weighted average strike price R	2011 Number
Financial year				
2011/2012	–	–	29.95	1 255 826
2012/2013	**34.14**	**1 088 671**	34.14	1 096 796
2013/2014	**44.93**	**869 352**	44.47	874 977
2014/2015	**69.35**	**708 020**	47.66	676 651
2015/2016	**98.14**	**306 151**	63.52	271 657
2016/2017	**130.59**	**80 193**	93.81	45 687
2017/2018	**160.09**	**34 506**	–	–
	43.58	**3 086 893**	35.10	4 221 594

	2012 Number	2011 Number
Shares purchased/issued during the year	**1 253 326**	1 270 826
Shares utilised for settlement of options	**(1 253 326)**	(1 270 826)
Shares available for settlement of options	**–**	–
Settled in cash	**–**	–
Settled in shares	**(1 253 326)**	(1 270 826)
Options exercised	**(1 253 326)**	(1 270 826)

The bank offers share options in Capitec Bank Holdings Limited to members of management who are able to make significant contributions to the achievement of the bank's objectives. The exercise price of the granted options is equal to the weighted 30-day market price of the shares on the date of the grant. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

37. Share option expense

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. Share options are reflected on an equity-settled basis and are valued at issue date. The number of options that are expected to vest are re-estimated on an annual basis.

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[(1)] vesting proportion %	Value taking into account expected vesting proportion R'000
2006/2007	30.20	31.00	36.1	1.4	2012/2013	7.6	12 500	167	99.1	166
	30.73	34.00	36.3	1.3	2012/2013	7.6	252 500	3 960	98.8	3 911
2007/2008	36.07	36.00	34.2	1.7	2012/2013	7.9	7 500	101	99.1	100
		36.00	34.2	1.7	2013/2014	7.9	7 500	110	89.2	98
	36.00	35.60	34.1	1.7	2012/2013	7.9	13 889	182	98.8	180
		35.60	34.1	1.7	2013/2014	7.8	13 889	198	88.9	176
	35.82	38.30	34.0	2.2	2012/2013	7.8	156 750	2 240	98.4	2 204
		38.30	34.0	2.2	2013/2014	7.7	156 750	2 392	88.5	2 118
	41.46	38.00	34.1	1.7	2012/2013	8.6	5 125	69	91.2	63
		38.00	34.1	1.7	2013/2014	8.5	5 125	75	82.1	62
2008/2009	35.54	33.10	36.6	3.2	2012/2013	9.6	395 625	3 983	98.5	3 923
		33.10	36.6	3.2	2013/2014	9.4	395 625	4 390	88.7	3 892
		33.10	36.6	3.2	2014/2015	9.3	395 625	4 707	79.8	3 756
	35.82	38.90	33.9	0.6	2012/2013	8.4	12 562	198	98.4	194
		38.90	33.9	0.6	2013/2014	8.3	12 562	219	88.5	194
	28.96	29.05	37.1	3.0	2012/2013	8.1	6 250	58	91.4	53
		29.05	37.1	3.0	2013/2014	8.0	6 250	63	82.3	52
		29.05	37.1	3.0	2014/2015	8.0	6 250	67	74.1	50
2009/2010	31.23	36.50	37.2	4.6	2012/2013	7.9	209 375	2 315	98.7	2 285
		36.50	37.2	4.6	2013/2014	8.2	209 375	2 500	88.8	2 220
		36.50	37.2	4.6	2014/2015	8.4	209 375	2 633	79.9	2 105
		36.50	37.2	4.6	2015/2016	8.5	209 375	2 722	72.0	1 958
	45.49	61.50	36.8	3.5	2012/2013	8.2	12 500	293	93.5	274
		61.50	36.8	3.5	2013/2014	8.5	12 500	312	84.2	263
		61.50	36.8	3.5	2014/2015	8.7	12 500	326	75.7	247
		61.50	36.8	3.5	2015/2016	8.8	12 500	337	68.2	230
	61.05	64.00	36.7	3.4	2012/2013	8.2	4 095	76	93.1	70
		64.00	36.7	3.4	2013/2014	8.5	4 095	85	83.8	72
		64.00	36.7	3.4	2014/2015	8.7	4 095	93	75.5	70
		64.00	36.7	3.4	2015/2016	8.8	4 095	98	67.9	67
2010/2011	97.30	100.20	35.9	2.4	2013/2014	7.4	42 497	1 236	88.8	1 098
		100.20	35.9	2.4	2014/2015	7.7	42 497	1 419	80.0	1 135
		100.20	35.9	2.4	2015/2016	7.9	42 503	1 569	72.0	1 129
		100.20	35.9	2.4	2016/2017	8.2	42 503	1 702	64.8	1 102
	117.79	129.00	35.5	2.2	2013/2014	6.6	3 184	126	86.1	109
		129.00	35.5	2.2	2014/2015	6.9	3 184	143	77.5	111
		129.00	35.5	2.2	2015/2016	7.2	3 184	157	69.7	110
		129.00	35.5	2.2	2016/2017	7.5	3 184	169	62.8	106
2011/2012	160.09	168.00	34.4	1.9	2014/2015	7.5	34 494	1 742	80.0	1 394
		168.00	34.4	1.9	2015/2016	7.8	34 494	2 009	72.0	1 447
		168.00	34.4	1.9	2016/2017	8.0	34 506	2 232	64.8	1 446
		168.00	34.4	1.9	2017/2018	8.2	34 506	2 420	58.3	1 411
Grand total							3 086 893	49 891	83.5	41 649

[(1)] *Executive staff turnover of 8% p.a. (2011:10%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

38. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

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

Year granted	Strike price	Year maturing	Risk-free rate	Number of options outstanding	Fair value	Portion of term expired	Expected vesting proportion[2]	Liability at year-end
			%		R'000	%	%	R'000
2009/2010	31.23	2012/2013	5.6	209 375	32 111	95.8	99.0	30 442
		2013/2014	5.8	209 375	31 459	71.9	91.0	20 584
		2014/2015	6.1	209 375	30 846	57.5	83.8	14 858
		2015/2016	6.4	209 375	30 270	47.9	77.1	11 180
	45.49	2012/2013	5.7	12 500	1 725	78.7	94.8	1 288
		2013/2014	5.9	12 500	1 697	59.1	87.2	874
		2014/2015	6.2	12 500	1 672	47.3	80.3	634
		2015/2016	6.5	12 500	1 648	39.4	73.8	480
	61.05	2012/2013	5.7	4 095	503	77.6	94.5	369
		2013/2014	5.9	4 095	498	58.2	87.0	252
		2014/2015	6.2	4 095	494	46.5	80.0	184
		2015/2016	6.5	4 095	490	38.8	73.6	140
2008/2009	28.96	2012/2013	5.7	6 250	958	78.7	93.1	702
		2013/2014	6.0	6 250	938	63.0	85.7	506
		2014/2015	6.3	6 250	920	52.5	78.8	381
	35.54	2012/2013	5.6	395 625	58 963	96.4	98.8	56 194
		2013/2014	5.8	395 625	57 824	77.2	90.9	40 567
		2014/2015	6.1	395 625	56 763	64.3	83.7	30 535
2010/2011	97.30	2013/2014	5.8	42 497	3 766	62.6	91.1	2 147
		2014/2015	6.1	42 497	3 846	47.0	83.8	1 513
		2015/2016	6.4	42 503	3 928	37.6	77.1	1 138
		2016/2017	6.7	42 503	3 995	31.3	70.9	886
	117.79	2013/2014	5.8	3 184	229	52.6	88.8	107
		2014/2015	6.2	3 184	242	39.5	81.7	78
		2015/2016	6.5	3 184	253	31.6	75.2	60
		2016/2017	6.7	3 184	262	26.3	69.2	48
2011/2012	160.09	2014/2015	6.1	34 494	1 682	29.5	83.8	416
		2015/2016	6.4	34 494	1 907	22.1	77.1	325
		2016/2017	6.7	34 506	2 082	17.7	70.9	261
		2017/2018	6.9	34 506	2 219	14.7	65.3	213
Grand total				2 430 241	334 190	73.2	88.8	217 362

Note 14

[1] *All rights were valued using the following variables:*

Dividend yield	*2.6%*
Volatility	*33.1%*
Ex dividend share price (cents)	*180.29*

[2] *Executive staff turnover of 8% p.a. (2011:10%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

39. Share appreciation rights: BEE consortium

The Capitec Bank Group Employee Empowerment Trust is a 5% participant in the BEE consortium that purchased 10 million shares in the group in February 2007. Funding for the share purchase was mainly obtained from the IDC.

During February 2008, a communication was sent out by Capitec Bank on behalf of the Trust to employees of the bank, informing them that each permanent employee, not participating in the share incentive scheme and employed at 29 February 2008, would benefit from cash disbursements, based on the cumulative increase in value of 200 Capitec Bank Holdings shares less funding costs, paid in increments of 25% over four years. The payments commenced in February 2010 and depend on continued employment by the group.

The agreement with employees constitutes a cash-settled equity-based compensation plan in terms of IFRS 2 and the trust is considered to be a subsidiary of the group.

At 29 February 2012, 1 502 (28 February 2011: 1 666) employees qualified for the rights.

Year granted	Year maturing	Risk-free rate	Rights	Value per right	Estimated value	Portion of term expired	Expected vesting portion	Fair value
		%	Number	R	R'000	%	%	R'000
2008	2013	5.6%	300 400	84.95	13 863	80%	86%	9 576

(1) *All rights were valued using the following variables:*

Dividend yield	*2.6%*
Volatility	*33.1%*
Ex dividend share price (cents)	*180.29*

(2) *Actual staff turnover of participants of 14% p.a. (2011: 10%) was used to estimate the likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 will be done on an annual basis.*

(3) *The estimated value consists of the cumulative value of the rights less payments to date.*

40. Derivative financial instruments: economic hedges

	Notional amount R'000	Fair values Assets R'000	Liabilities R'000
2012			
Forward foreign exchange contracts			
Notional amounts in ZAR	**4 101**	**263**	**–**
Notional amounts in USD	**579**	**–**	**–**
2011			
Forward foreign exchange contracts			
Notional amounts in ZAR	4 271	–	203
Notional amounts in USD	579	–	–

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 R4.1 million (2011: R4.3 million).

41. Derivative financial instruments: cash flow hedges

	Notional amount R'000	Fair values Assets R'000	Fair values Liabilities R'000
2012			
Interest rate swaps	1 150 000	–	3 321
2011			
Interest rate swaps	380 000	–	6 066

	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Grand total R'000
2012					
Discounted swap cash flows	–	1 058	2 438	(175)	3 321
Net	–	1 058	2 438	(175)	3 321
2011					
Discounted swap cash flows	–	6 066	–	–	6 066
Net	–	6 066	–	–	6 066

Gains and losses recognised in the hedging reserve in comprehensive income (note 17) on interest rate swap contracts as at financial year-end will be continuously released to the income statement in line with the interest expense on the underlying hedged domestic medium-term notes.

The forecasted cash flows presented above show how the cash flow hedging reserve, at financial year-end, will be released to the income statement over time. The interest rate swaps have quarterly reset and settlement dates. For the interest rate swaps the forecast cash flows were based on contracted interest rates.

At 29 February 2012, the fixed interest rates were between 5.74% and 6.32% and the floating rates were based on forecast 3-month JIBAR rates at 29 February 2012.

The fair value adjustment removed from the cash flow hedging reserve and transferred to the income statement amounting to a debit of R7.1 million (2011: R22 million), has been included in interest expense in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2012 and 2011. There were no transactions for which cash flow hedge accounting had to be discontinued in 2012 and 2011 as a result of highly probable cash flow no longer being expected to occur.

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

Shareholder Year ended 29 February 2012	Shares held Number	Shareholding %
PSG Financial Services Limited	32 314 970	32.55
Limietberg Beleggings (Pty) Limited	10 398 444	10.47
Coral Lagoon Investments 194 (Pty) Limited [1]	10 000 000	10.07

[1] *Coral Lagoon Investments 194 (Pty) Limited (Coral) disposed of 5 284 735 shares in the ordinary share of Capitec on 29 February 2012 (settlement date of the transaction in terms of the STRATE operating system being 7 March 2012) to the Public Investment Corporation SOC (PIC) as part of a restructuring of the financing of Coral's interest in Capitec. Subsequent to the acquisition of these shares the PIC holds an interest of 7.8% in the ordinary shares of Capitec.*

43. Black economic empowerment shareholding

Shareholder Year ended 29 February 2012	Shares held Number	Shareholding %
Coral Lagoon Investments 194 (Pty) Limited	10 000 000	10.07
Thembeka Capital Limited	3 473 193	3.50
Merlyn Claude Mehl	40 784	0.04
Nonhlahnla Mjoli-Mncube	110 000	0.11
	13 623 977	13.72

44. Shareholding by executive management [1]

Shareholder Year ended 29 February 2012	Shares held Number	Shareholding %
CG van Schalkwyk	719 355	0.72
CG Fischer	1 109 654	1.12
A Olivier	252 634	0.25
L Venter	327 306	0.33
C Oosthuizen	102 575	0.10
NST Motjuwadi	246	0.00
JE Carstens	2 491	0.00
GM Fourie	975 342	0.98
	3 489 603	3.5

[1] *Executive directors' shareholdings is presented in note 7.1 of the directors' report.*