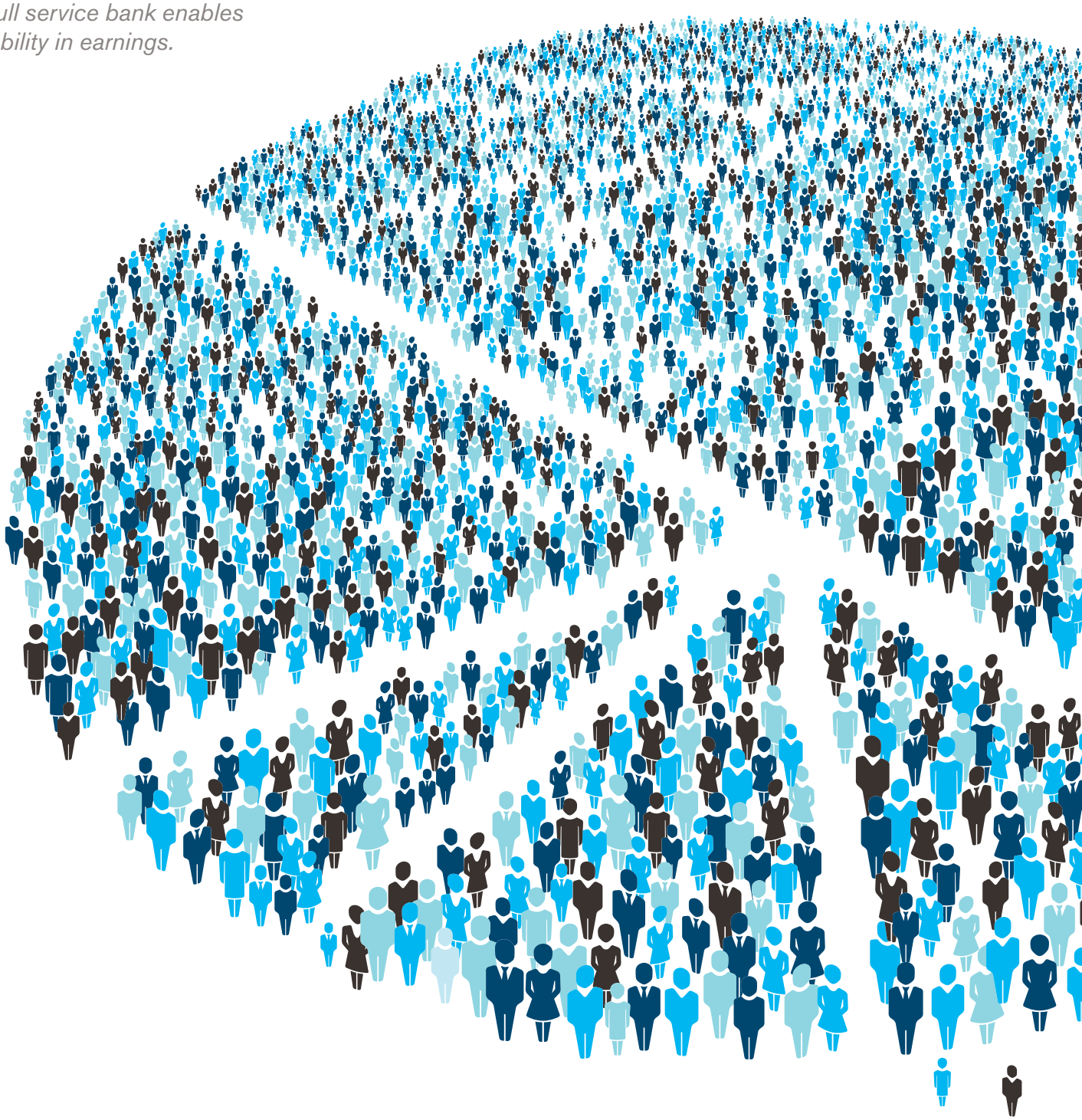
Chief financial officer's review 2015

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



Returning sustainable value

Return on equity on target at 25%

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

Earnings of R2.547 billion

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

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

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

Loans advanced ('sales')

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

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

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

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

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

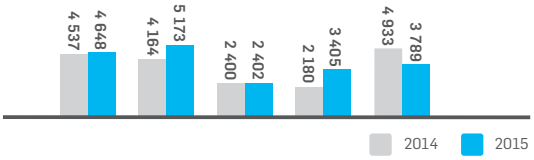
The market for loans in the short-term category of 1-12 months is highly competitive. The total number of short-term loans granted declined by 8% to 2.3 million. However, the value of sales increased by 2% to R4.6 billion. The overall mix of loan sales for terms less than 12 months to loans sold with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

Negative industry growth of 14%

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

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

LOAN SALES BY PRODUCT (R'm)



	(Months)					Total
	1-12	13-36	37-48	49-60	61-84	
2014	4 537	4 164	2 400	2 180	4 933	18 214
%	25	23	13	12	27	100
2015	**4 648**	**5 173**	**2 402**	**3 405**	**3 789**	**19 417**
%	**24**	**27**	**12**	**18**	**19**	**100**

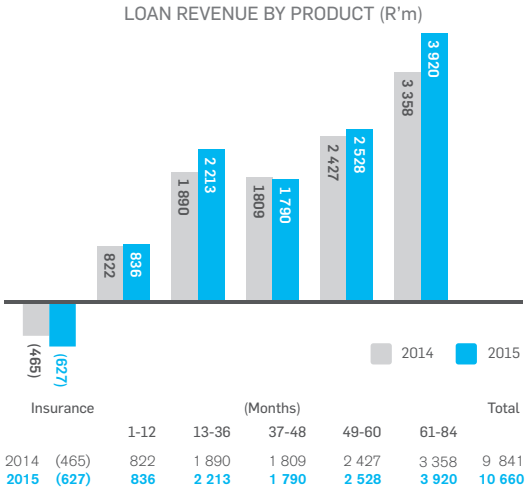
Loan revenue

8% growth in loan revenue

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

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

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



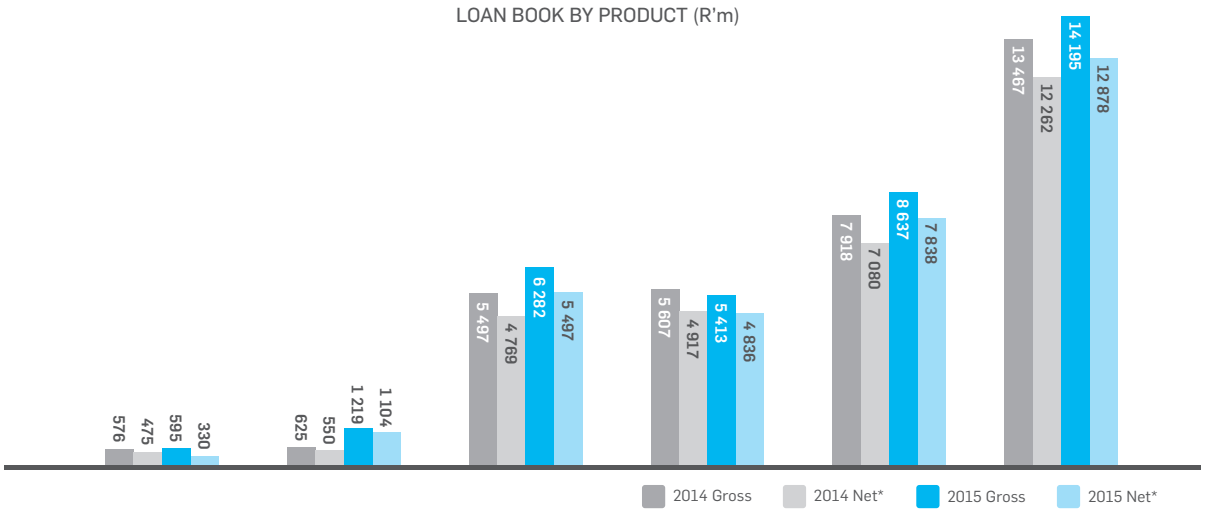
The continued high revenue on the longer term loan products, despite a decrease in sales, is due to the effect of annuity income from loans written in previous years. This is especially evident in the 61-84 month product group where loans sales were lower than the prior year. The strong loan sales in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

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

Outstanding loan capital protected from retrenchments and the death of clients

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

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



	Other	1-12	13-36	37-48	49-60	61-84	Total
2014 Gross	576	625	5 497	5 607	7 918	13 467	33 690
2014 Provision	(101)	(75)	(728)	(690)	(838)	(1 205)	(3 637)
2014 Net*	475	550	4 769	4 917	7 080	12 262	30 053
2015 Gross	**595**	**1 219**	**6 282**	**5 413**	**8 637**	**14 195**	**36 341**
2015 Provision	**(265)**	**(115)**	**(785)**	**(577)**	**(799)**	**(1 316)**	**(3 857)**
2015 Net*	**330**	**1 104**	**5 497**	**4 836**	**7 838**	**12 879**	**32 484**

Loan book, arrears and provision for doubtful debts

8% growth in loans and advances

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

On-going tightening of credit granting criteria

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

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

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

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

Continued prudence in provisioning

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

10% decrease in arrears

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

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

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

6% increase in impairment provisions

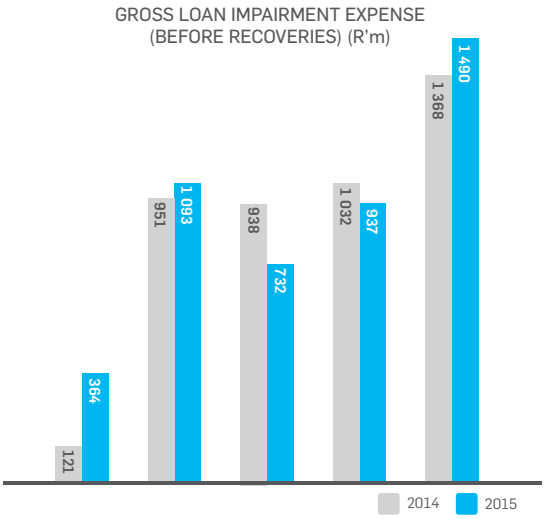
The impairment provision increased 6% to R3.9 billion and represents 10.6% of gross loans and advances compared to 10.8% at the end of February 2014. The increase reflects our cautious view on provisions as although arrears declined by 10% provisioning levels were increased by 6%. Our statistical model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

Rescheduled accounts

We continue to closely monitor rescheduled accounts. As amending a new contract does not necessarily remove the risk, we have always carried a higher provision on current rescheduled loans than the rest of the current book. During the year we increased our provisioning on the higher risk class of arrears, which were rescheduled in the past six months, from 33% in 2014 to 42% at the end of 2015.

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

R'm	2015	%	2014	%
Gross	**33 494**		30 769	
Impairment	**(2 335)**	7%	(2 073)	7%
Current	**31 159**		28 696	
Gross	**883**		747	
Impairment	**(366)**	42%	(246)	33%
Current – arrears rescheduled in the past six months	**517**		501	
Gross	**1 964**		2 174	
Impairment	**(1 156)**	59%	1 318	61%
Arrears	**808**		856	
Total gross	**36 341**		33 690	
Total impairment	**(3 857)**		(3 637)	
Total net	**32 484**		30 053	



Loan impairment expense

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

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

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

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

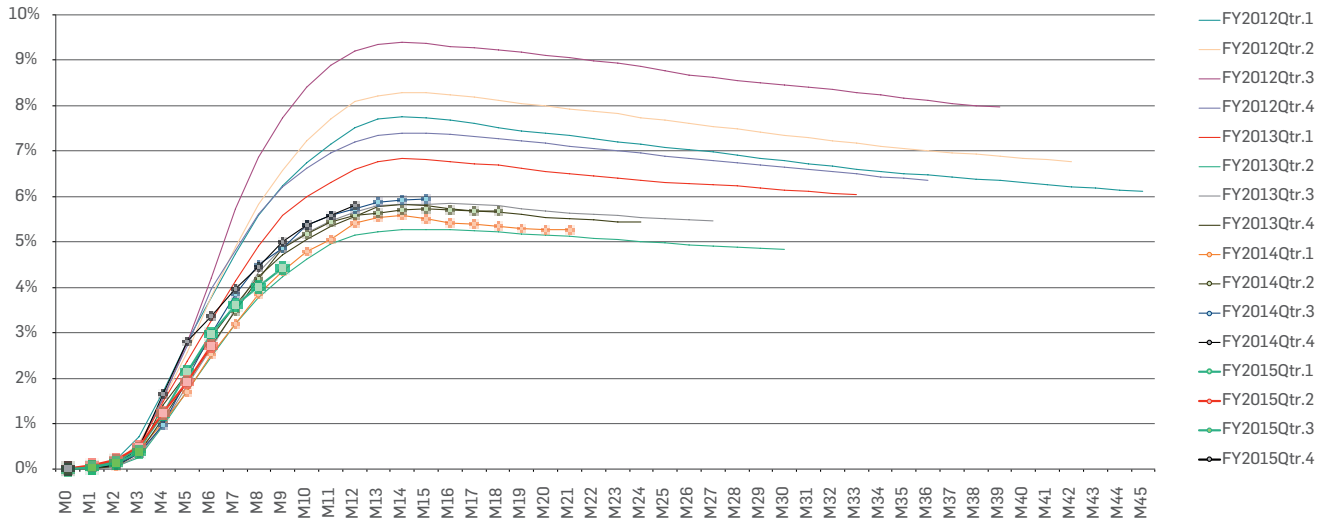
The provisions charge was R220 million compared R914 million in the previous year. This does not mean that we were less conservative in provisioning. The book required a lower level of provisioning as the arrears experienced during the 2015 year indicate that the loan book is performing better, requiring a smaller increase.

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

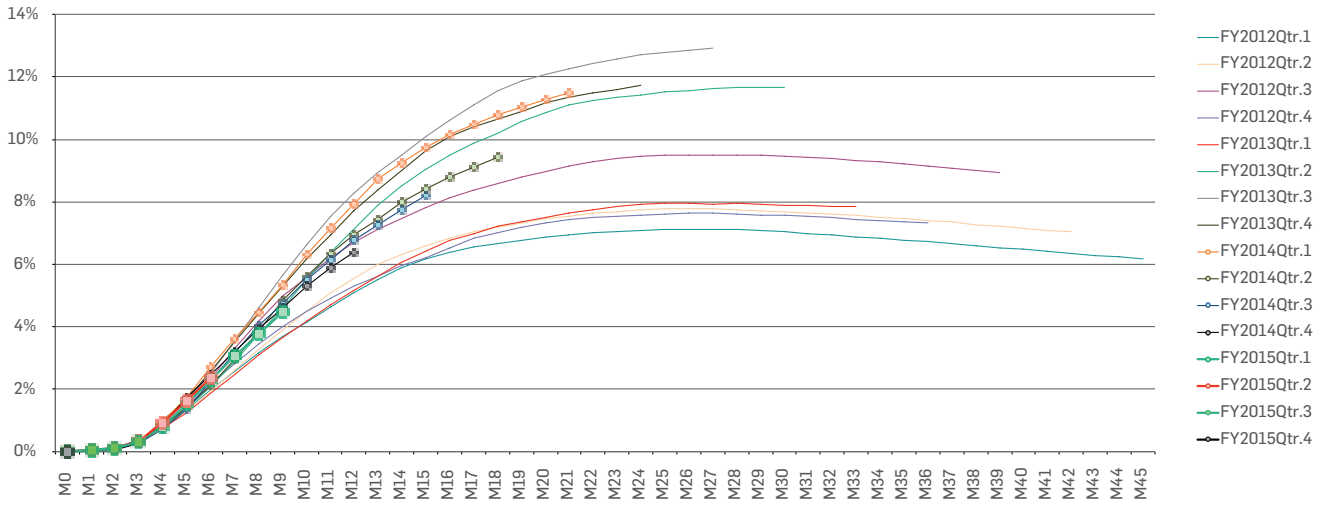
Vintage Graphs

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

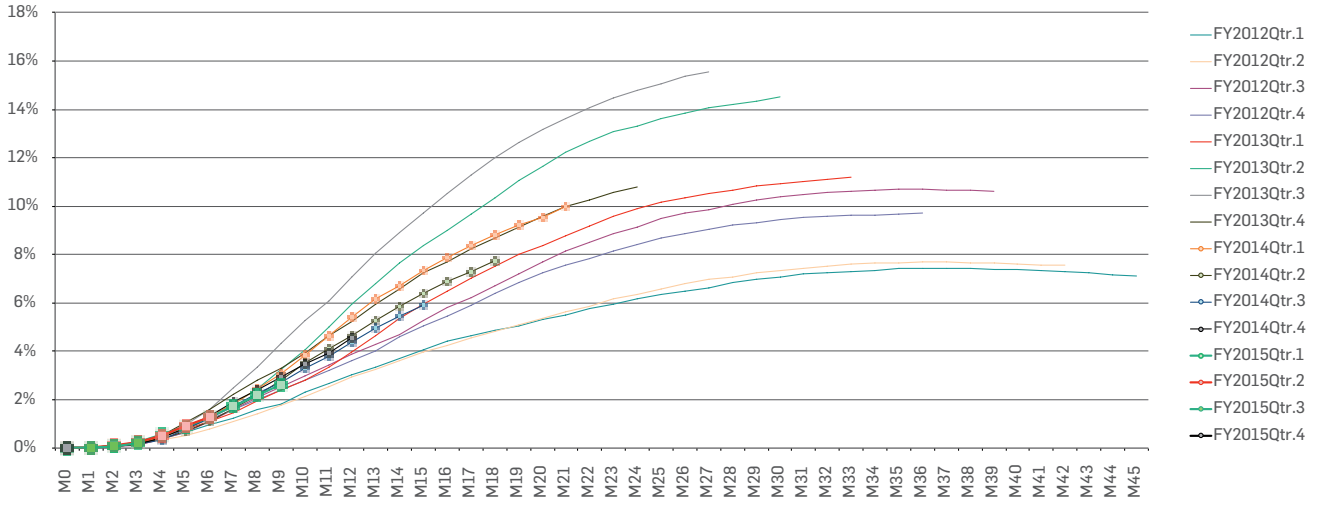
7 – 12-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)

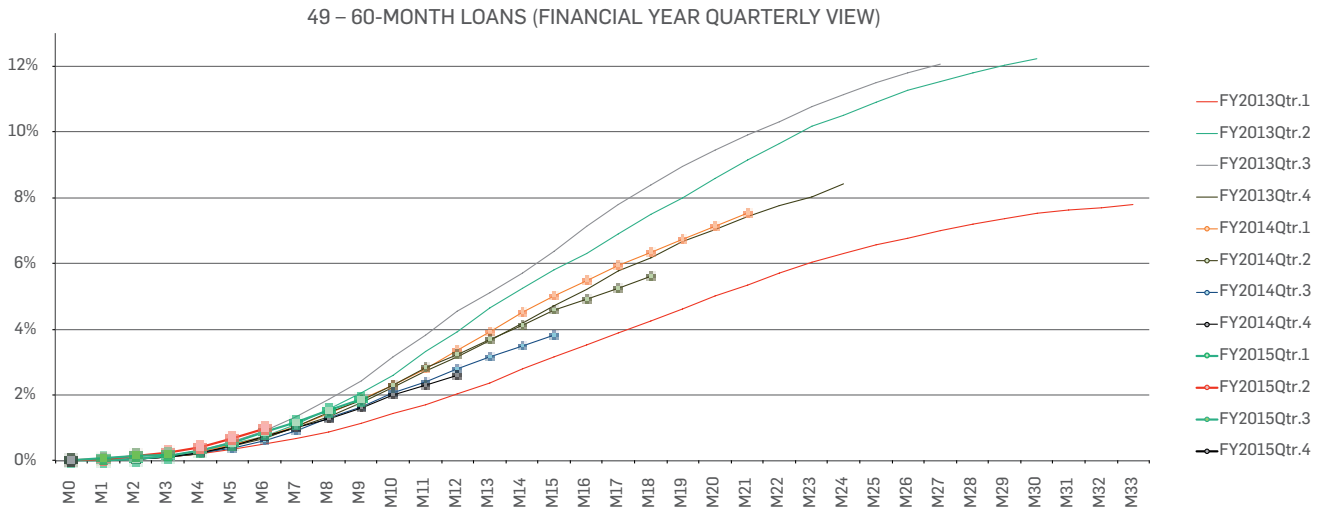


13 – 36-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



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




49 – 60-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
12%
10%
8%
6%
4%
2%
0%
M0 M1 M2 M3 M4 M5 M6 M7 M8 M9 M10 M11 M12 M13 M14 M15 M16 M17 M18 M19 M20 M21 M22 M23 M24 M25 M26 M27 M28 M29 M30 M31 M32 M33
FY2013Qtr.1
FY2013Qtr.2
FY2013Qtr.3
FY2013Qtr.4
FY2014Qtr.1
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FY2015Qtr.1
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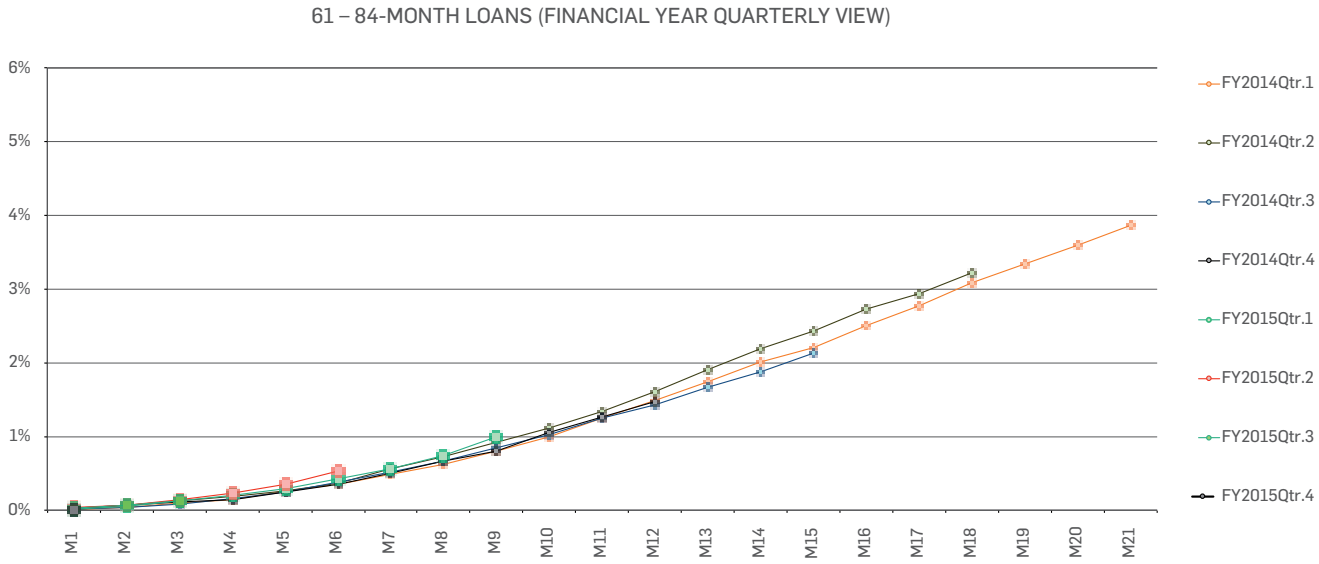

61 – 84-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
6%
5%
4%
3%
2%
1%
0%
M1 M2 M3 M4 M5 M6 M7 M8 M9 M10 M11 M12 M13 M14 M15 M16 M17 M18 M19 M20 M21
FY2014Qtr.1
FY2014Qtr.2
FY2014Qtr.3
FY2014Qtr.4
FY2015Qtr.1
FY2015Qtr.2
FY2015Qtr.3
FY2015Qtr.4

Transacting

Net transaction fee income of R2.6 billion

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

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

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

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

Funding

Debt-to-equity ratio of 3.7:1

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

Retail call deposits grew strongly

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

Retail fixed savings now 50% of term funding

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

Wholesale funding

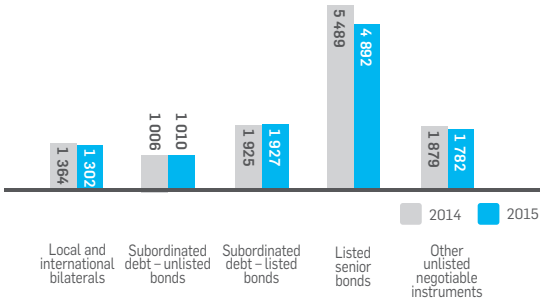
The value of wholesale deposits declined from R11.7 billion in 2014 to R10.9 billion as instruments matured. The curatorship of African Bank resulted in a decline in general debt issuance in the listed bond and over the counter markets. Risk aversion by funders resulted in spreads widening and liquidity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

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

Interest rate exposure on wholesale funding hedged

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

WHOLESALE FUNDING BY NATURE (R'm)



	Local and international bilaterals	Subordinated debt – unlisted bonds	Subordinated debt – listed bonds	Listed senior bonds	Other unlisted negotiable instruments	Total
2014	1 364	1 006	1 925	5 489	1 879	11 663
2015	**1 302**	**1 010**	**1 927**	**4 892**	**1 782**	**10 913**

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

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

The treasury department manages the composition of the cash and investments portfolio and the split between cash assets and longer-dated investments based on operational needs, compliance requirements of the Banks Act and internal policies governing the management of assets and liabilities. The weighted average remaining maturity of the cash portfolio at 28 February 2015 was 72 days. The balance sheet categorisation for cash and cash equivalents is based on whether instruments have an original contractual maturity of less than three months. None of the longer-term investments have an original contractual maturity of longer than one year. The contractual liquidity position as at 28 February 2015 is set out in Annexure 1.

Liquidity

Conservative liquidity policy maintained

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

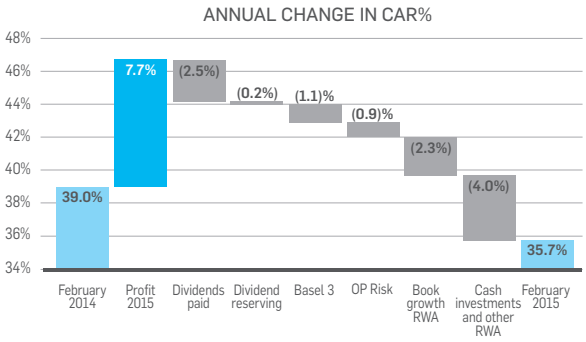
Compliance with new Basel 3 liquidity ratios

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

Capital

Capital is adequate

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



**This comparitive was restated to reflect the final calibration decisions made by the Basel Committee during 2014 effective January 2015*

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

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

Credit rating

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

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

Cost structure

Cost-to-income ratio increased to 35%

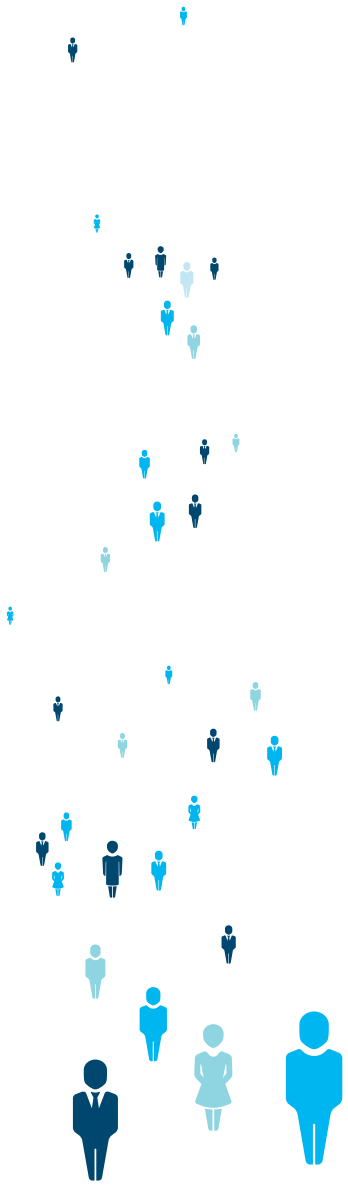
The cost-to-income ratio increased from 32% for 2014 to 35% in 2015. Income from banking operations increased by 15%, while operating expenses increased by 24%. The growth in income from banking operations is dealt with in the sections on loan revenue and transacting. Total banking operating expenses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

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

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

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

Expenses remained within predefined limits and cost control within the company remains strong. An analysis of expenses is set out in Annexure 2 to this report.



Regulation

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

Regulator	Development	Impact
SARB	Changes have been made to card interchange fees	Transaction fee revenues will be impacted in 2016 but expected growth in business volume will offset this
SARB	Review of non-authenticated early debit order collections environment	Capitec is involved in the working groups that are part of developing a revised solution for the NAEDO environment. The impact of any changes will be addressed in our processes
SARB	Review of the various methods used for calculating the capital requirements for credit risk Introduction of a method for holding capital on interest rate risk positions	Capitec is involved in the working groups that are part of assessing these developments and any changes will be addressed in our processes
NCR	Capping of fees on credit life and retrenchment insurance	Capitec does not charge credit life or retrenchment insurance. The impact will be beneficial for Capitec as this will result in many credit providers revising their risk appetites lower. It will become more difficult for clients with existing debt to over-indebt themselves
NCR	Review of interest and fees	Parliament has indicated that a review should be done of the current levels of interest and fees. Various quantitative studies are being conducted. There are no further developments at this time
NCR	Emolument Attachment Orders ('EAOs')	The use of EAOs is being tested in the High Court. We monitor developments and will factor any developments into our plans
NCR	Affordability guidelines	New regulations dealing with the assessment of affordability under the National Credit Act, no. 34 of 2005, were published on 13 March 2015. The regulations came into effect on date of publication. Although we comply substantially, adjustments are being implemented to achieve full compliance. We support proper regulation enhancing sustainability of the credit industry

Dividends

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

André du Plessis
Chief financial officer

Annexure 1

Group contractual liquidity position

Maturities of financial assets and financial liabilities (discounted cash flows) R'000	Notes	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment	Total
2015							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	761 481	–	–	–	–	761 481
Cash and cash equivalents – banks	4	9 650 303	799 416	–	–	–	10 449 719
Short-term corporate bills	4	–	101 525	–	–	–	101 525
Money market unit trusts - corporate other		8 240	–	–	–	–	8 240
Investments at fair value through profit or loss – sovereigns	5	1 623	577 540	2 169 847	–	–	2 749 010
Term deposit investments		273 695	3 761 421	1 830 989	–		5 866 105
Loans and advances to clients – retail personal	7	2 742 871	3 528 034	14 440 536	44 767 577	(330 353)	65 148 665
Loans and advances to clients – retail other	7	7 020	–	–	–	–	7 020
Loans and advances to clients – corporate other	7	13 702	–	–	–	–	13 702
Other receivables	8	105 037	714	–	5 939	–	111 690
Derivative assets	9	(79)	(1 357)	(4 301)	43 485	–	37 748
Current income tax assets		–	–	37 635	–	–	37 635
Undiscounted assets		13 563 893	8 767 293	18 474 706	44 817 001	(330 353)	85 292 540
Adjustments for undiscounted assets		(1 308 668)	(1 852 579)	(7 340 117)	(18 511 420)	–	(29 012 784)
Discounted assets							
Loan impairment provision	7	(332 179)	(147 941)	(584 423)	(2 792 827)	–	(3 857 370)
Total discounted assets		11 923 046	6 766 773	10 550 166	23 512 754	(330 353)	52 422 386
Undiscounted liabilities							
Deposits and bonds at amortised cost	14	20 116 795	2 227 827	6 959 632	16 089 687	–	45 393 941
Trade and other payables	15	547 867	262 581	32 593	118 574	145 199	1 106 814
Current income tax liabilities		–	–	–	–	–	–
Provisions	16	–	–	–	64 268	–	64 268
Undiscounted liabilities		20 664 662	2 490 408	6 992 225	16 272 529	145 199	46 565 023
Adjustments for undiscounted liabilities to depositors		(29 507)	(196 695)	(922 446)	(3 063 640)	–	(4 212 288)
Total discounted liabilities		20 635 155	2 293 713	6 069 779	13 208 889	145 199	42 352 735
Net liquidity excess/(shortfall)		(8 712 109)	4 473 060	4 480 387	10 303 865	(475 552)	10 069 651
Cumulative liquidity excess/(shortfall)		(8 712 109)	(4 239 049)	241 338	10 545 203	10 069 651	10 069 651

Annexure 1 (continued)

Group contractual liquidity position

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than one year R'000	Notes	More than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	More than ten years
2015								
Undiscounted assets								
Loans and advances to clients – retail personal	7	44 767 577	15 975 484	11 938 702	8 075 604	4 477 483	4 300 304	–
Other receivables	8	5 939	5 720	–	–	–	219	–
Derivative assets	9	43 485	(10 282)	53 403	364	–	–	–
Undiscounted assets		44 817 001	15 970 922	11 992 105	8 075 968	4 477 483	4 300 523	–
Adjustments for undiscounted assets		(18 511 420)	(7 231 074)	(4 724 155)	(2 723 238)	(1 361 300)	(2 471 653)	–
Discounted assets								
Loan impairment provision	7	(2 792 827)	(979 734)	(753 934)	(529 447)	(302 424)	(227 288)	–
Total discounted assets		23 512 754	7 760 114	6 514 016	4 823 283	2 813 759	1 601 582	–
Undiscounted liabilities								
Deposits and bonds	14	16 089 687	5 910 659	3 923 831	2 073 132	3 014 440	1 167 625	–
Trade and other payables	15	118 574	38 195	15 675	8 403	3 037	53 264	–
Provisions	16	64 268	32 709	31 559	–	–	–	–
Undiscounted liabilities		16 272 529	5 981 563	3 971 065	2 081 535	3 017 477	1 220 889	–
Adjustments for undiscounted liabilities to depositors		(3 063 640)	(1 061 106)	(797 034)	(563 416)	(439 554)	(202 530)	–
Total discounted liabilities		13 208 889	4 920 457	3 174 031	1 518 119	2 577 923	1 018 359	–
Net liquidity excess/ (shortfall)		10 303 865	2 839 657	3 339 985	3 305 164	235 836	583 223	–
Cumulative liquidity excess/(shortfall)		10 545 203	3 080 995	6 420 980	9 726 144	9 961 980	10 545 203	10 545 203

Annexure 2

Table of main operating expenses

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

R'000	GROUP 2015	2014
(Profit)/Loss on disposal of equipment	**(2 994)**	80
Loss on scrapping of intangibles	**2 016**	–
Depreciation on fixed assets	**282 043**	248 794
Amortisation of computer software	**85 904**	76 164
	366 969	325 038
Advertising and marketing	**157 047**	152 514
Bank charges	**175 472**	182 546
Consumables	**141 634**	114 594
Communications	**137 517**	133 590
Operating lease rentals		
Land and buildings	**291 592**	239 162
Office equipment	**3 302**	2 964
	294 894	242 126
Income from subletting	**(4 559)**	(3 861)
Auditors' remuneration	**3 788**	3 320
Audit fees – current year	**–**	–
Other services	**448**	674
	4 236	3 994
Employee costs (including directors' remuneration)		
Salaries and bonus costs	**1 913 595**	1 427 587
Equity–settled share–based payment	**13 105**	8 398
Cash–settled share appreciation rights	**160 137**	56 104
Social security cost	**36 273**	34 315
Training cost	**47 022**	35 015
Training refund	**(3 343)**	(10 232)
	2 166 789	1 551 187