hello

Integrated Annual Report **2018**

CAPITEC
BANK
HOLDINGS LIMITED

Why we are in business

At Capitec, our mission is to help clients improve their financial lives. We guide and assist our clients to transact, and financially interact with the world as it evolves. We believe that banking should not cost our clients excessive amounts of time or money and should enable them to spend these on things most important to them.

How we do business

We make banking simple, transparent and easy to access from anywhere at any time. We offer our clients value for money, which we deliver with personalised experiences. By putting our clients first, interacting with energy and taking ownership, we help our clients feel in control of their money.

What we do

We offer a solution named Global One, which allows our clients to do transactions worldwide using a card or mobile device. Global One allows clients to save money, earn higher interest and provides access to affordable and responsible credit in minutes, whenever they may need it.

Key performance indicators

		2018	2017	Change % 2018/2017	2016	2015
Profitability						
Interest income	R'm	**15 474**	14 934	4	13 413	11 487
Net loan fee income[1]	R'm	**1 380**	495	179	(83)	(85)
Total lending, investment and insurance income	R'm	**16 854**	15 429	9	13 330	11 402
Interest expense	R'm	**(4 184)**	(3 552)	18	(2 884)	(2 426)
Net lending, investment and insurance income	R'm	**12 670**	11 877	7	10 446	8 976
Net transaction fee income	R'm	**5 127**	3 923	31	3 020	2 608
Other	R'm	**(1)**	–		(1)	22
Income from operations	R'm	**17 796**	15 800	13	13 465	11 606
Net provision for doubtful debts charge	R'm	**(5 280)**	(5 121)	3	(4 401)	(4 014)
Net income	R'm	**12 516**	10 679	17	9 064	7 592
Income from associates	R'm	**3**	–		–	–
Operating expenses	R'm	**(6 364)**	(5 439)	17	(4 591)	(4 031)
Non-banking operations	R'm	**–**	–		–	(1)
Income before tax	R'm	**6 155**	5 240	17	4 473	3 560
Tax	R'm	**(1 685)**	(1 434)	18	(1 244)	(995)
Preference dividend	R'm	**(12)**	(16)	(25)	(16)	(18)
Earnings attributable to ordinary shareholders						
Basic	R'm	**4 458**	3 790	18	3 213	2 547
Headline	R'm	**4 461**	3 793	18	3 222	2 547
Net transaction fee income to net income	%	**41**	37		33	34
Net transaction fee income to operating expenses	%	**81**	72		66	65
Cost-to-income ratio	%	**36**	34		34	35
Return on ordinary shareholders equity	%	**27**	27		27	25
Earnings per share						
Attributable	cents	**3 855**	3 278	18	2 779	2 209
Headline	cents	**3 858**	3 281	18	2 787	2 209
Diluted attributable	cents	**3 843**	3 267	18	2 773	2 206
Diluted headline	cents	**3 846**	3 270	18	2 781	2 206
Dividends per share						
Interim	cents	**525**	450	17	375	246
Final	cents	**945**	800	18	680	590
Total	cents	**1 470**	1 250	18	1 055	836
Dividend cover	x	**2.6**	2.6		2.6	2.6
Assets						
Net loans and advances	R'm	**41 814**	39 205	7	35 760	32 484
Cash, cash equivalents and other liquid assets	R'm	**39 400**	30 605	29	24 989	19 755
Other	R'm	**3 743**	3 548	5	2 196	1 678
Total assets	R'm	**84 957**	73 358	16	62 945	53 917
Liabilities						
Retail deposits and wholesale funding	R'm	**64 030**	55 582	15	47 940	41 181
Other	R'm	**2 035**	1 658	23	1 346	1 172
Total liabilities	R'm	**66 065**	57 240	15	49 286	42 353
Equity						
Shareholders' funds	R'm	**18 892**	16 118	17	13 659	11 564
Capital adequacy ratio	%	**36**	34		35	36
Net asset value per ordinary share	cents	**16 241**	13 809	18	11 663	9 822
Share price	cents	**83 246**	72 500	15	47 400	41 000
Market capitalisation	R'm	**96 255**	83 830	15	54 807	47 407
Number of shares in issue	'000	**115 627**	115 627		115 627	115 627
Share options						
Number outstanding	'000	**777**	963	(19)	868	710
Number outstanding to shares in issue	%	**0.7**	0.8		0.8	0.6
Average strike price	cents	**38 561**	31 755	21	28 520	19 403
Average time to maturity	months	**19**	20		27	28

		2018	2017	Change % 2018/2017	2016	2015
Operations						
Branches		**826**	796	4	720	668
Employees		**13 333**	13 069	2	11 440	10 261
Active clients	'000	**9 868**	8 569	15	7 269	6 244
ATMs and DNRs						
Own		**1 895**	1 653	15	1 236	941
Partnership		**2 750**	2 371	16	2 469	2 477
Total		**4 645**	4 024	15	3 705	3 418
Capital expenditure	R'm	**829**	1 000	(17)	704	414
Credit sales						
Value of total loans advanced	R'm	**28 292**	27 226	4	24 228	19 417
Number of total loans advanced[2]	'000	**3 947**	3 508	13	3 684	2 820
Average of total loans advanced	R	**7 168**	7 761	(8)	6 577	6 887
Average loans advanced less than or equal to 6 months[2]	R	**2 078**	1 905	9	1 749	1 668
Average loans advanced greater than 6 months	R	**32 133**	26 605	21	25 229	27 441
Credit book						
Gross loans and advances	R'm	**47 642**	45 135	6	40 891	36 341
Average loan size at year end less than or equal to 6 months	R	**2 621**	2 736	(4)	2 636	2 569
Average loan size at year end greater than 6 months	R	**36 302**	31 123	17	30 901	37 353
Arrears – past due (not up-to-date with contractual obligations)	R'm	**2 700**	2 855	(5)	2 297	1 964
Arrears to gross loans and advances	%	**5.7**	6.3		5.6	5.4
Up-to-date that rescheduled from arrears (not rehabilitated[3])	R'm	**1 277**	1 583	(19)	1 542	883
Arrears and up-to-date that rescheduled from arrears (not rehabilitated[3]) to gross loans and advances	%	**8.3**	9.8		9.4	7.8
Up-to-date that rescheduled from up-to-date (not rehabilitated[3])	R'm	**1 085**	1 088	(0)	1 818	1 130
Arrears and all rescheduled (not rehabilitated[3]) to gross loans and advances	%	**10.6**	12.2		13.8	10.9
Provision for doubtful debts	R'm	**5 828**	5 930	(2)	5 131	3 857
Provision for doubtful debts to gross loans and advances	%	**12.2**	13.1		12.5	10.6
Provision for doubtful debts to arrears coverage	%	**216**	208		223	196
Provision for doubtful debts to arrears and rescheduled loans from arrears (not rehabilitated[3]) coverage	%	**147**	134		134	135
Provision for doubtful debts to arrears and all rescheduled loans (not rehabilitated[3]) coverage	%	**115**	107		91	97
Repayments[4]	R'm	**35 974**	33 236	8	29 388	24 256
Gross provision for doubtful debts charge	R'm	**6 560**	6 246	5	5 255	4 616
Bad debts recovered	R'm	**1 280**	1 125	14	854	602
Net provision for doubtful debts charge	R'm	**5 280**	5 121	3	4 401	4 014
Net provision for doubtful debts charge to average gross loans and advances	%	**11.4**	11.9		11.4	11.5
Total lending and insurance income (excluding investment income)[5]	R'm	**15 008**	14 362	4	12 837	11 287
Total lending and insurance income (excluding investment income)[5] to average gross loans and advances	%	**32.4**	33.4		33.2	32.3
Net provision for doubtful debts charge to total lending and insurance income (excluding investment income)[5]	%	**35.2**	35.7		34.3	35.6
Loan revenue[6]	R'm	**14 596**	13 720	6	12 145	10 660
Loan revenue[6] to average gross loans and advances	%	**31.5**	31.9		31.5	30.4
Retail deposits and wholesale funding						
Wholesale funding	R'm	**6 206**	7 543	(18)	10 154	11 152
Retail call savings	R'm	**34 909**	30 117	16	24 152	19 298
Retail fixed savings	R'm	**22 915**	17 922	28	13 634	10 731

[1] *Loan fee income, loan fee expense and net insurance income*
[2] *Includes credit card. For a number of loans advanced, a month in which the credit card is utilised is counted*
[3] *Not rehabilitated – clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months. Once rehabilitated, the loan is classified as up-to-date*
[4] *Includes bad debts recovered and early settlements where a subsequent loan is taken, the last repayment does not lead to an outflow – prior years are restated to include this*
[5] *Interest received on loans, initiation fees, monthly service fee and net insurance income*
[6] *Interest received on loans, initiation fees, monthly service fee, net insurance income and loan fee expense*

01 *It's reporting, just simpler*

report overview

We believe that our integrated annual report should reflect our core fundamentals in the way we report. We invite you to let us know whether we have achieved this for our financial year ended 28 February 2018.

Scope and boundaries of our report

This report provides information on the governance, performance and prospects of Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group). Non-financial information relates to our strategy, opportunities, risk, people and governance.

Capitec is a bank controlling company and is listed on the Johannesburg Stock Exchange (JSE) equity market. Capitec Bank Limited (Capitec Bank), a wholly owned subsidiary, houses all material operations and is listed on the JSE bond market. It contributed 98% of the group's profit for the financial year. There has been no material change to the products and services Capitec Bank offers since the publication of the previous integrated annual report. The remaining subsidiaries are listed on page 18 under our group structure.

We base the information in this report on local and international requirements and frameworks, including:

- International Financial Reporting Standards (IFRS);
- Companies Act, Act 71 of 2008, as amended (Companies Act);
- Listings Requirements of the JSE Limited (JSE Listings Requirements); and
- King IV Report on Corporate Governance™ for South Africa 2016 (King IV™).

The group complies with the principles of corporate governance as set out in King IV™. Stakeholders are referred to the website (www.capitecbank.co.za/investor-relations) where full details regarding the application of the principles set by King IV™ are provided.

Combined assurance

The audit committee and the risk and capital management committee (RCMC) are responsible for overseeing our combined assurance model and objectives, which include:

- enabling an effective internal control environment;
- supporting the integrity of information used for internal decision-making by management, the board and its committees; and
- supporting the integrity of external reports.

Capitec's internal assurance providers, namely risk management, compliance and internal audit collaborate on combined assurance initiatives to support the board, and to effectively cover the group's significant risks and material matters.

Assurance regarding the annual financial statements in this report is provided in the independent auditor's report (page 170). Where considered appropriate, external sources have been used to provide independent information for elements of the integrated annual report other than the financial statements.

Reporting suite

This report is our primary communication about our performance for the 2018 financial year and contains the full annual financial statements. Further reporting elements include our results presentation, SENS announcements and website: www.capitecbank.co.za.

Capitec Bank issues a separate financial report, available in the online investor relations centre.

Reporting approach and feedback

Lengthy standard disclosures have been purposely avoided to ensure that this report remains relevant to Capitec and its stakeholders. We provide simple, transparent feedback about our performance, governance and prospects. This ensures that shareholders, as well as other stakeholders, can formulate a view on the group's long-term sustainability.

In compiling this report, we considered all the reports submitted to the board and executive management committee for discussion, any stakeholder feedback, key risk factors and strategic objectives.

We appreciate feedback that helps us improve our reporting transparency, quality and comparability. Please send any comments to the company secretary at enquiries@capitecbank.co.za.

Forward-looking statement

Certain statements (words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will' and 'should' and similar expressions) in this report are forward-looking. These relate to, among others, the plans, objectives, goals, strategies, future operations and performance of Capitec. These statements are not guarantees of future operating, financial or other results and involve certain risks, uncertainties and assumptions. Actual results and outcomes may differ materially from those expressed in or implied by such statements.

Approval of this report

The board takes responsibility for overseeing the integrity and completeness of this report. The board confirms that it applied its collective mind to the preparation and presentation of this report.

The board and the audit and human resource and remuneration committees considered the accuracy and completeness of this report and is satisfied with the reliability of all data and information.

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

26 March 2018

02 *Capitec at a glance*

at a glance

Everything we do is directed at delivering the best solution in the interest of our clients.

GlobalOne
Money Management

Transact. Save. Insure. Credit.

+9.9m

clients of which 46% are primary banking clients

- *3 million activated banking app clients*
- *826 Capitec branches*

When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries. Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3-month period. Remote banking refers to both banking app and USSD transactions. Please also refer to the glossary on page 163.

Why we are in business

South Africans make daily financial choices in circumstances where they often have little control. They might not be aware of all their options and may make decisions that bring short-term relief, but will not help them to live better in the long term.

We help South Africans bank better to live better. We offer banking that is easy to understand. We assist our clients in transacting and financially interacting with the world as it evolves to ensure that, regardless of what happens, we can help improve their financial lives. We design our offering so that people can select the unique and most affordable way suited to how they want to control their money.

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

How we do business

The Capitec Way describes how we do business according to 4 fundamentals:

- *Simplicity*
- *Affordability*
- *Accessibility*
- *Personalised experience*

We apply these fundamentals in how we behave and how we think about our business. This includes product and branch design, pricing, processes and communication. Our business might be complex in the background, but for the client it should always adhere to the fundamentals.

Our behaviour

Capitec is committed to ethical behaviour. We believe in putting the client first, working with energy and taking ownership.

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

- Client first
- Energy
- Ownership

These corporate values are manifested in a range of policies that specify the ethical conduct expected from all employees and are communicated to employees frequently. The board is ultimately responsible for creating an ethical culture. The social and ethics committee monitors that the culture is embedded and maintained effectively.

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

Our fundamentals

Banking is about relationships of trust.

Simplicity

Simplicity is at the heart of our positioning in the market and the essence of how Capitec operates. We use technology as an enabler of simplicity: it helps us deliver products in a way that makes it easy and transparent for our clients. Everything we do is done with the client in mind. Simplicity applies to the way we structure our product offering, with our flat, fixed pricing structure; our advanced service processes; and in the way we communicate with our clients.

A simple front-end solution often requires complicated background systems and processes. Initially, development and planning may take time but the benefit is a product and pricing offer that is well differentiated, transparent, easy for our consultants to deliver and easy for our clients to use.

Accessibility

Accessibility means ensuring that clients can access our Global One solution from anywhere, at any time and in any way, to place them in control of their banking.

Our 826 branches are in malls and shopping centres next to the anchor retail tenant or in the high street where our clients are instead of the banking halls, making it easier to access. Our advanced cashless branch systems allow us to open up the entrances to our branches without major security. Our electronic queue management system allows clients to wait without queuing. We trade for longer hours on weekdays than other banks. Over 326 branches, mainly in shopping centres, are open 7 days a week.

The complete Global One Solution is available via internet banking, Unstructured Supplementary Service Data (USSD) and our mobile banking application (app). More than 3.7 million clients used USSD and there was a 71% increase in clients using our banking app over the past year. We interact with clients on social media and at our client care centre 24 hours a day, 7 days a week.

Affordability

Affordability means ensuring that our clients always get value for money. We support this by running a low-cost business.

We understand the competitive landscape and ensure that the fees on our Global One solution are among the lowest in the market. Although we implemented a fee increase for 2018, we have retained low pricing on remote banking. This is part of our out-of-branch transacting strategy, which encourages clients to use more affordable self-service and automated banking options. Self-service and electronic channels save clients time and money. It also increases capacity in our branches to serve new clients and assist those with complex banking needs.

Personalised experience

We create a personalised experience for clients by giving them freedom to choose. Every client is seen for the individual they are.

To personalise banking for each client, we combine digital accessibility with personal relationships. In this way, we get to understand the unique financial needs and goals of each client. Then we can help clients manage their money in the best way possible. We make sure they can bank anytime from anywhere.

Clients also have access to our branch and client care network service consultants. Our emphasis here is on personal, face-to-face experiences built on conversations. Our branches are designed to facilitate this: clients are greeted by hand and served alongside the consultant, which allows them to see on screen what the consultants do on our banking system. This empowers them to choose the personalised options they want and to feel in control of the process.

Our branch managers are located at the front of the branch instead of an office at the back to ensure they are visible and accessible. As the champions of client service, they personally welcome new clients when a new account is opened.

We measure a client's experience from the moment they enter a branch to the time of service. This ensures that we reduce waiting time and assist clients quickly.

Our consultants are employed from the areas in which their branch operates, as they are familiar with the community and can serve clients in their home language.

What we do

We offer a single solution to all our clients regardless of their level of income or assets through Global One and it includes the following:

- *a transaction account*
- *4 customisable savings plans*
- *insurance*
- *credit options such as a term loan, credit facility or a credit card*

Our transaction account earns a comparatively high interest on positive balances and charges low, flat transaction fees. Clients can earn more interest on their savings plans by fixing the term and can select variables on their credit application for an unsecured loan at an interest rate comparable to secured lending rates. Clients can apply for credit life cover to help mitigate against unforeseen loss. This includes death, permanent and temporary disability, unemployment or a situation in which a client is unable to earn income. The Capitec funeral plan, which assists clients with significant funeral costs, will be launched in the new financial year.

We offer home loans in partnership with SA Home Loans.

GlobalOne
Money Management

transact
Main transaction/savings account

save
4 savings plans defined by you

insure
Credit insurance
Capitec funeral plan (to be launched in the 2019 financial year)

credit
Choose personalised credit plans

Our remote banking channels offer clients free access to their money, with 1 fixed fee per transaction when making payments. Inter-account transfers and card purchases carry no fees and clients can access cash at supermarket tills for R1.61, our ATMs for R6.51, or any other bank's ATM for R8.83.

We do not use income demographics to segregate our client base. Every client receives the same pricing for transactional accounts. The focus is on providing essential banking to all clients, regardless of income level.

transact

- 826 branches
- 4 645 ATMs and DNRs
- Online shopping
- USSD mobile banking
- Internet banking
- Mobile banking application
- Card
- Merchant solutions
- Employer salary transfer facility

save

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

insure

- Capitec funeral plan (to be launched in the 2019 financial year)
- Permanent disability
- Temporary disability
- Unemployment or retrenchment
- Death

credit

- Personal term loans
- Credit facility
- Credit card

Our client profile

Of our 9.9 million clients:

46%
are primary banking clients

14%
have personal loans

71%
increase in banking app users

What we offer

Our intent is to nurture long-term relationships with clients who trust us. We guide them on how to bank better in a simple, affordable way that offers them the best advantage.

Unique delivery of our solution

To help our clients bank better, we follow a service support process that informs and sets out the options from which clients can choose. This allows them to compare alternatives within the 4 key need definitions: transact, save, insure and credit. They can then structure their solutions according to their individual preferences under Global One.

The service process is supported by real-time paperless processing, side-by-side consulting and simplified choices on product alternatives.

Clients who apply for credit are taken through further steps in the service support process: we talk them through their sources of income, obligations and living expenses. We combine this with data from national credit bureaus and a review of the client's bank statements. We help them understand their rights and obligations and the risks and costs of the credit they applied for.

Personal service is best executed in smaller branches, as they require minimal administrative and security support. This has a dual effect: it is attractive to clients and enables system-driven, paperless processes. We focus on service support and addressing client needs, rather than dealing with the administrative control of the service processes.

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

Branch managers focus on service quality and efficiency. They are present in the branch and remain in touch with client needs and service logistics. Branches are cashless and all transactions and decisions are fully incorporated into the front-end system. This enables us to provide branch service from at least 08:00 to 17:00 weekdays and from 08:00 to 13:00 on Saturdays and Sundays in retail areas, such as shopping malls.

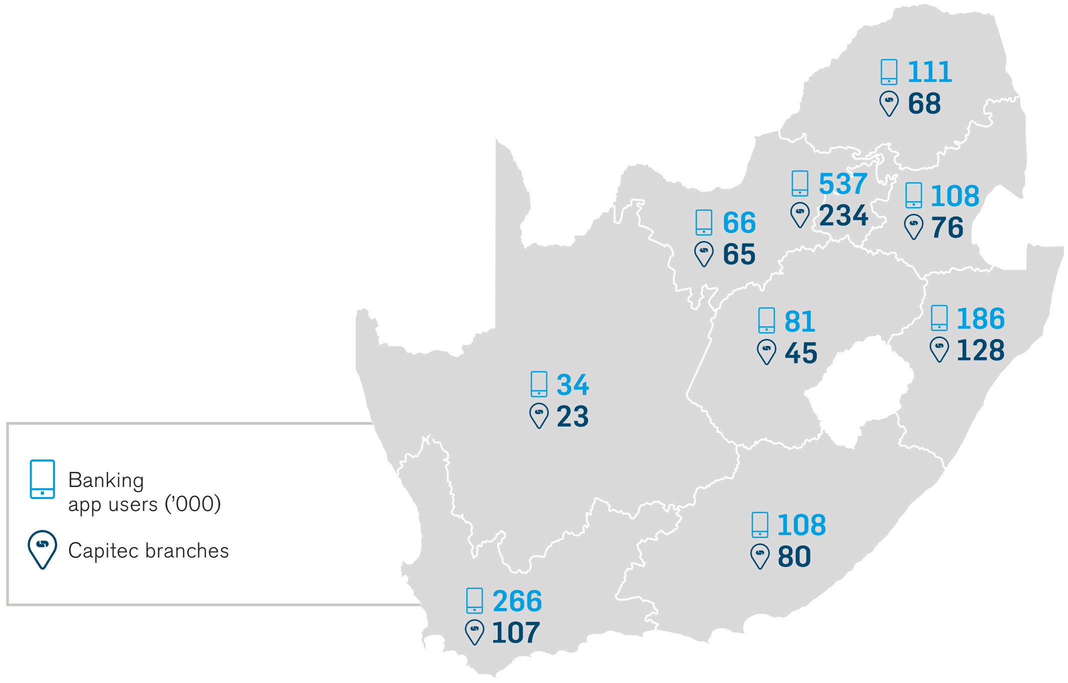
Our simplified product offerings and processes result in our clients receiving a superior service.

Financial inclusion

Capitec continues to offer simple, affordable and accessible banking solutions to millions of South Africans. Since inception, we have responded to the challenge of financial inclusion by providing greater accessibility to banking.

Our accessibility approach ensures branches are located in areas closer to communities, places of work and public transportation. We combined accessibility with corporate citizenship and social responsibility initiatives aimed at financial education. This has created an increasingly more financially active and responsible client base.

Read more about financial inclusion in our social responsibility initiatives on page 146.

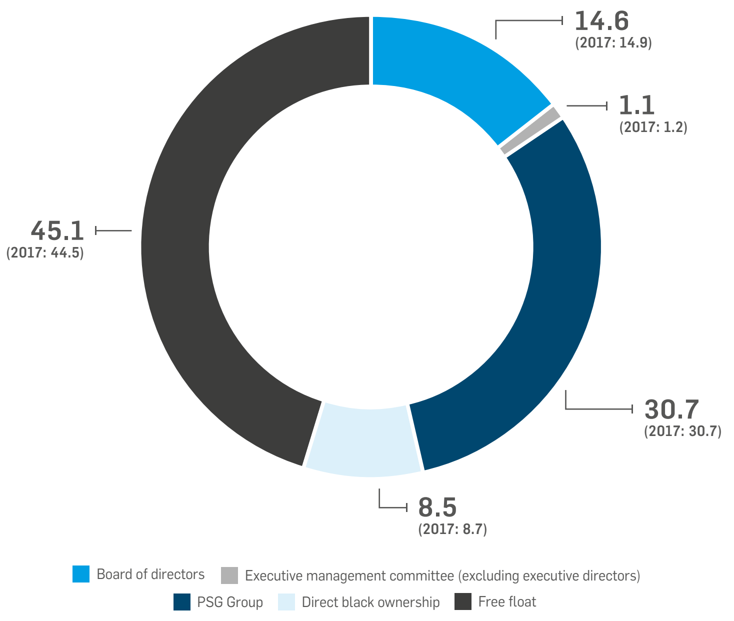


Our group structure

Capitec Bank Holdings Limited
1999/025903/06
Registered bank controlling company incorporated in RSA and listed on the JSE bank sector

100%	100%	100%	100%	19.43%	33.33%
Capitec Bank Limited 1980/003695/06 Incorporated in RSA Retail bank	**Capitec Properties Proprietary Limited** 1998/007658/07 Incorporated in RSA Property holding company	**Keynes Rational Corporate Services Proprietary Limited** 1999/0014817/07 Incorporated in RSA Dormant	**Keymatrix Proprietary Limited** 1999/010617/07 Incorporated in RSA Dormant	**Creamfinance** HE 335345 Incorporated in Cyprus	**Praelexis Proprietary Limited** 2012/149960/07 Incorporated in RSA

CAPITEC BANK HOLDINGS LIMITED'S OWNERSHIP PROFILE (%)



Our measure of success

Our business is widely distributed in South Africa and sells a single retail banking product with no reliance on a single or few major customers.

Of our 9.9 million clients (2017: 8.6 million) 46% are primary banking clients. We recognise that this vote of confidence means that we have to honour our promise of a simplified, affordable solution to money management that is:

- easy to access;
- delivered at a high level of efficiency; and
- of high service quality.

We monitor both media and social channels to track brand sentiment. We also monitor complaints and client feedback through our client care centre on a real-time basis as a true reflection of our reputation. Internally, we measure our performance through our management operating systems (MOS). This integrated review system is used to manage strategy, operations and risk. The MOS ensures that key performance areas and key results indicators are aligned to our objectives, business plans and budgets. Identified risks are measured against key risk indicators.

Our performance against these key indicators are set out in the pages that follow and in the key performance indicators on pages 2 and 3.

Key financial and strategic indicators

18%
headline earnings increase

3 858 cents
headline earnings per share

R19 billion
shareholders' funds

36%
cost-to-income ratio

81%
net transaction fee income to operating expense

1 470 cents
total dividend per share

27%
return on ordinary shareholders' equity

5.7%
arrears to gross loans and advances

5%
decrease in arrears

12.2%
provision for doubtful debts to gross loans and advances

30
new branches this year

621
additional ATMs this year

94%
of clients wait less than 15 minutes in a branch to be served

6 022
learners supported with maths and science education

R3.4 billion
in interest on retail savings deposits earned by clients

289 521
credit card clients pay a R35 monthly fee

31%
net transaction fee income increase

105%
banking app volume increase

18%
quality clients increase

12.9%
lowest personalised credit interest rate

74%
of total possible transactions done through self-service options

R155 million
saved by clients by drawing cash at tills

Key strategic executive insights

	What we said we wanted to do:	What we did this year:	What we want to do next:
Improvement of service	• Obtain a single view of the client at all points of interaction • Create a personalised, omni-channel, self-service experience • Create and manage world class service levels at all points	• Improved banking app functionality • Roll-out of self-service terminals (SST)	• Provide the client with a personalised communication experience in-branch and on remote channels • Brand advocates through a world-class service experience • Expansion of SST functionality
People development and leadership	• Attract and retain top-quality people • Become the best incubator of industry leaders • Build a culture of greatness and innovation	• We embraced knowledge transfer through mentoring • We attracted the best-in-market people by making sure we have leaders from whom people want to learn • We built on our relationship with universities and are taking on master students to create internal research capacity • We invested in own-time training and simulations with an emphasis on reporting scorecard building and artificial intelligence • We aligned our human resource structure with organisational requirements and business strategy • We worked closely with the operations team leadership on the design and delivery of learning interventions supporting the Capitec Way	• Develop a leadership capability in all areas of the business, with specific focus on operations • Drive a diverse, representative workforce, including continued roll-out of the graduate development programme and university bursaries in key and scarce critical skills • Establish a learning organisation driven by own-learning in job-specific areas • Continue to build the pool of designated employees to create a succession pool
Business delivery and throughput	• Develop capacity to deliver in fast-changing environment • Deliver projects in reduced time • Develop and maintain a client first focus	• Through the Capitec Way of Work we adopted an agile methodology in which project teams work according to 2-weekly sprints • We have established end-to-end control within the credit life cycle to ensure the policy is executed as intended, for product development, systems testing, models and implementation • We developed and deployed a behaviour score for the credit granting model, provisions and collections • We enabled credit key performance indicators to reconcile with our credit risk appetite	• Improve the capacity to deliver through quantified business cases, training and mentoring
Grow quality clients	• Increase market share in higher income segments • Improve quality of banking clients through stable product use • Move transactions from branch to mobile/self-service channels	• We delivered the targeted level of quality clients through the new credit granting model • Clients that qualify for a long-term product can now elect to take up shorter-term products according to their specific needs with the interest rate as low as 12.9%. As the client keeps on performing well, their behaviour score improves, which improves the credit terms we offer when they apply again	• Continue to improve our credit granting model and scorecards • Redesign operational areas to be more resourceful and to improve analytics
Develop a digital banking platform	• Develop client profiling	• We enhanced and improved the functionality of the Capitec mobile app • We made significant security and client experience improvements in the USSD channel • We created a data science capability • The digital platform and fintech collaboration strategy was defined, including the technical building blocks required	• Continue to release new Capitec banking app functionality with an improved client experience • Complete all phases of the USSD re-platforming • Continue to build a capability for data science and apply this to developing insights into the client that can help optimise their financial behaviour • Fully implement a core client interaction management system

Our awards

We do not target awards, nor do we measure our success based on it.

We do acknowledge the recognition of our efforts and value this as confirmation of our strategy and continued focus on doing what is in the best interest of our clients.

Awards/surveys	Description and results	Voting process	When
Nielsen	The most popular bank (research on how many people use Capitec as their primary bank). Three out of 10 banking customers indicated Capitec as their primary bank.	Consumer research	January/ February 2017
South African Customer Satisfaction Index (SAcsi)	For the fifth year in a row, Capitec customers remain the most satisfied among other retail banks. The index measured South Africans' expectations of value and quality within the banking industry and asked them to rate each of the banks on these characteristics.	South African public	March 2018
Columinate: SITEsfaction survey	In the SITEsfaction survey, Capitec came a close second in the category, 'Internet Banking' and first in 'Overall Mobile Banking'. This resulted in Capitec being South Africa's best digital bank for 2017.	South African public	May 2017
Lafferty Group	Capitec was rated best bank in the world for the second successive year in Lafferty's annual Global Bank Quality Benchmark.	Independent rating of 100 of the largest quoted banks in more than 20 economies worldwide	June 2017
Brand Finance and Brand SA Top 50 brands	Capitec was recognised as the fastest-growing brand with an estimated Rand value growth of 25%. Capitec was awarded South Africa's strongest brand, with a AAA- brand strength rating.	Brand Finance uses a number of different metrics of which market share, brand equity, financial results, etc. make up a total brand strength and brand value rating	July 2017

Awards/surveys	Description and results	Voting process	When
Debt Counselling and Debt Review Industry	Capitec was voted as the best bank in the Credit Provider category at the 2017 Debt Review Awards. Every year, all National Credit Regulator (NCR) registered debt review industry parties are invited to share their feedback on the various payment distribution agencies through an online peer review system.	NCR registered debt review industry parties	August 2017
Sunday Times Top Brands	Under consumer awards, Capitec came 1st in the 'Top 5' in the following categories: Retail banks (score 71.47 – a 10 point lead against competitors) Unsecured lenders (score 60.45)	The 2017 survey polled 3 500 individuals, aged 18 years and older in metropolitan and non-metropolitan areas of South Africa to establish a ranking of top brands in 32 consumer categories	September 2017
All African Business Leaders Awards (AABLA) 2017 Company of the year	AABLA in partnership with CNBC Africa: Celebrating Africa's Business giants for 7 years. Capitec was named company of the year.	Methodology not disclosed	November 2017

Our stakeholders

We engage with our stakeholders to ensure that we remain relevant in the market and in society at large. We take care to understand and address their legitimate expectations, as this enables us to create sustainable and shared value, and confirms our contribution as a responsible corporate citizen.

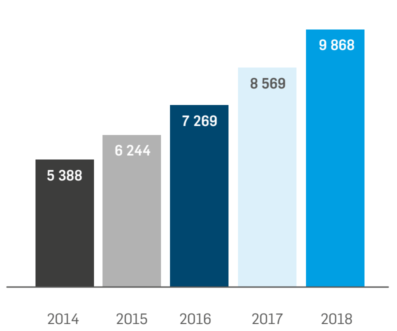
Our stakeholder groups remain constant. The topics of engagement change every year based on changes in our operating environment and client offering.

Responsibility for overall stakeholder engagement resides with the executive management committee (EXCO), who relies on different functions to engage with specific stakeholders. The social and ethics committee carries governance responsibility for monitoring relationships with all stakeholders through its key focus areas:

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

Our primary stakeholder groups are listed below. Secondary stakeholder groups include suppliers, non-governmental organisations (NGOs) and smaller related interest groups.

NUMBER OF CLIENTS



Clients

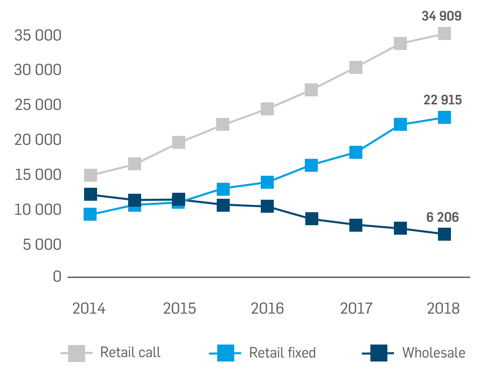
Simplicity is the ultimate sophistication

Our client pool increased by 83% over the past 5 years.

We elicit feedback through regular contact with clients and by collecting data through our interactions and transactions. This enables us to review our product and service offering to better differentiate Capitec. It has helped us to transform the banking experience for our clients: we have longer opening hours, open branch designs and new self-service options.

Read more about our awards on the previous page as evidence of our client perceptions.

DEPOSITS



Investors, analysts and rating agencies

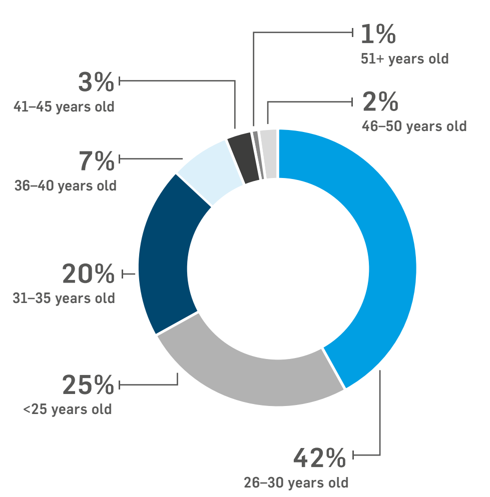
Responsible financial returns

Capitec's investors comprise a mix of retail depositors, shareholders, bond holders and other debt funders. They enable us to invest in growth while maintaining conservative liquidity levels. The ratings assigned to Capitec Bank by rating agencies play a further role in the availability and pricing of funding for operations and growth.

Detail of our ownership profile is set out on page 18. Key management also holds shares, which ensures that they are sensitive to the risks and rewards faced by shareholders. This is enforced by the minimum shareholding requirement contained in the remuneration report.

These stakeholders expect a secure and stable group that operates with integrity and offers sustainable returns and capital growth.

EMPLOYEE AGE PROFILE



Employees

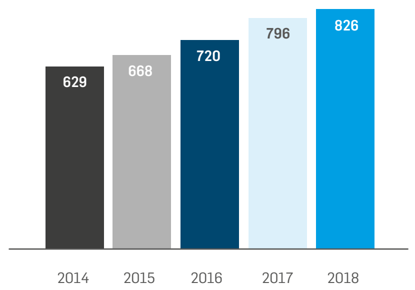
Employer of choice

Our employee numbers have increased by 60% over the past 5 years.

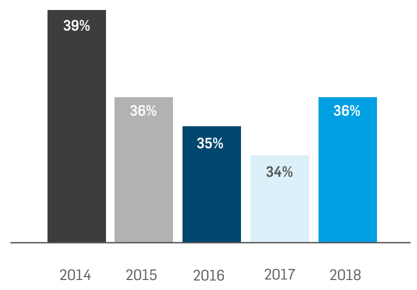
Our unique service approach is founded in an organisation culture defined by the Capitec Way. We make sure that this forms part of the employee experience from initial contact to well after retirement. Employees are valued for their unique potential and talent, as they represent the face of the business.

Read more about our employees from page 112.

NUMBER OF BRANCHES



CAPITAL ADEQUACY RATIO (%)



Society

More than a bank

Capitec's purpose is to help people bank better to live better. This means providing for basic banking needs while assisting people to manage and plan for their financial priorities and commitments. Our communities offer a pool of employees and potential clients. Therefore, we care for their welfare and contribute to their development and empowerment.

We make sure that we open branches in communities where our clients reside, recruit employees from those communities and deliver the same quality banking experience to all clients.

Read more in the section on social responsibility from page 146.

Government and regulators

Transparency is key

By complying with government and regulatory requirements, we contribute to a healthy banking system and credit market in South Africa. We value good relationships with these stakeholders as they allow us to provide input on policies and regulations that may affect our operations.

We have always maintained healthy capital adequacy ratios which result in a stable business positioned for growth.

Read more about our regulatory environment on page 40 and find more detail on regulatory bodies and legislation in the risk report on page 88.

The value-added statement on page 162 provides further insight into how we effectively create financial value for stakeholders.

Human rights

Our approach to human rights is confirmed in a statement of intent approved by the social and ethics committee. We recognise that business contributes to economic welfare and therefore has a role to play in human progress. Sound human rights practices deliver commercial rewards for all stakeholders over the long term. Companies that apply human rights policies are better prepared to prevent human rights abuses and effectively deal with transgressions.

An extract from Capitec's statement of intent:

- Capitec commits itself to uphold the equality and dignity of all people it engages with and to recognise their basic human rights.
- The people that the bank engages with include all stakeholders, ranging from employees, to shareholders and groups with vested interests such as societies.
- Capitec will apply the above principle without deviation and correct any contrary behaviour where it is within our power and ability to do so.
- Where human rights abuse exists and it is not within the ability of Capitec to correct the behaviour, the bank will disassociate itself from practitioners who commit these abuses and apply the necessary influence to change behaviour.

How we create value

We make daily trade-off decisions where we might prioritise a particular stakeholder's interests.

These decisions are always made to create better banking in line with our core fundamentals. Examples include:

- To protect our liquidity and depositors' funds, we are conservative in managing capital: we retain capital that could have been distributed to shareholders.
- To innovate, we run a high number of projects which are sometimes delayed as we have to redeploy resources to plan for and implement new regulatory requirements.

For clients to bank better, we have to be sustainable in the long term. We employ the right employees and apply appropriate governance, technology-advanced infrastructure and systems that evolve through continuous innovation and support how we run the business and meet client needs.

Employees

We create employment in local communities and develop specialists who all work according to the Capitec Way. We remunerate fairly and are committed to providing equal opportunities.

Governance

Robust policies, internal controls and accurate reporting ensure effective risk, compliance and capital management. Our board and management lead with expertise and are committed to an ethical culture.

Infrastructure and systems

Our infrastructure consists of leased buildings, data centres, ATMs, IT systems and remote banking solutions. Our products are supported on a single system with appropriate disaster recovery plans and security.

Processes and innovation

With extensive data collection and analysis capabilities we use artificial intelligence to enhance innovative thinking in line with our core fundamentals. We continuously offer new ways of banking better.

We are different because we offer 1 single solution to daily money management called Global One:

GlobalOne
Money Management

transact | save | insure | credit

Externally: with Global One the client has 1 account with Capitec

Internally: with Global One we have 1 integrated, granular and collective view of the client

Our core business activities

We design for the client	Products, services, infrastructure and systems are designed with a deep understanding of client needs and taking account of regulatory requirements.
We have scalable processing capacity	We use all our data for service support and to run the credit granting model. Our data scorecards help us understand client behaviour better to improve pricing for risk and to anticipate client needs.
We deliver quick and efficient services	The physical distribution and management of cash is a core capability. In the same way, we are able to provide clients with cards immediately when opening an account. We encourage remote banking to reduce risk for the client.
Decisions are fast, consistent and clear	We have a flat structure and make fast decisions within strict policy guidelines and a risk management framework that sets clear boundaries in terms of risk tolerance. Branch consultants have no ability to override the system or deviate from policy: our IT infrastructure determines all options and variables.
We measure and manage in detail	Because we have a single, systemic view of the business we can measure and manage branch activity (such as waiting time and speed of service), employee performance, downtime and productivity actively in detail. The level of detail is 1 of our competitive advantages and helps us to continuously improve.

Outcome:

enhanced insights to make banking better and help people live better

We manage a range of key risks that relate to our business model (as discussed in our risk report):

- Credit risk
- Operational risk
- Business risk
- Market risk
- Capital and liquidity management
- Reputational risk

We apply 4 fundamentals in everything we do:

Simplicity | Affordability | Accessibility | Personalised experience

03 Our operating environment

Credit clients are protected from the direct impact of interest rate increases as Capitec loans are at fixed interest rates.

We welcomed the final Credit Life Insurance Regulations effective 9 August 2017

"BB"

Our global long-term rating according to Standard & Poor's

1.3%

South African GDP growth with a 2020 outlook of 2.1%

Economy

The economy has an indirect impact on our business.

We experience changes in macro-economic indicators, commodity cycles and trends through the way our clients respond. They are, for example, faced with higher fuel and transport cost as a result of increased oil prices. Our lower income clients are particularly sensitive to such costs, which are often a significant portion of their disposable income. High food inflation has a similar bearing on disposable income, overall resulting in less money available for savings and potentially higher arrears as clients rearrange their financial priorities.

However, our exposure mainly relates to clients who access credit, which constitutes less than 14% of our client base. 86% of the clients interacting with us do not have loans.

Read more about the way in which we respond to the global economic impact in the CFO's report on page 48.

Key facts

	2017	2018 forecast	2019 forecast
Gross domestic product (GDP) growth (%)	1.3	**1.5**	1.8
Consumer Price Index (CPI) (%)	5.3	**5.3**	5.4
Oil (USD/barrel)	64	**66.5**	63.2

2020 National outlook

GDP	CPI	Interest rate	Unemployment
2.1%	5.1	7%	24%

Our business is exposed to South African economic trends, political stability and growth prospects. A healthy economy offers growth in employment and disposable income. This in turn leads to individual and community empowerment with an increasing pool of potential clients resulting in higher levels of transaction volumes.

In a weak and constrained economic environment, our clients suffer from continued unemployment, increased retrenchments, salaries not increasing in line with the cost of living and lower access to credit.

Credit clients are protected from the direct impact of interest rate increases as Capitec loans are at fixed interest rates. Few clients have exposure to external floating rate debt. Changes in transport, energy and food inflation have a greater impact on clients' ability to repay loans when compared to movements in interest rates.

Employment growth in South Africa remained insufficient to fully absorb new entrants into the labour market, resulting in the official unemployment rate remaining unchanged at 27.6% for a third successive quarter in the third quarter of 2017. Public sector employment contracted for a third successive quarter in the second quarter of 2017, reflecting the impact of government's attempts to contain the public sector wage bill on employee headcount through a freeze on new appointments, combined with natural attrition. (*Source: South African Reserve Bank (SARB) Quarterly Bulletin December 2017)*

According to the (SARB), money supply accelerated somewhat in the third quarter of 2017, reflecting a notable recovery in the deposit holdings of financial companies, a sustained increase in household deposits and a marginal improvement in those of non-financial companies. Bank credit extended to the domestic private sector remained subdued in the third quarter of 2017. Growth in loans and advances to the household sector accelerated marginally but remained weak, while corporate credit growth continued to slow.

The SARB Monetary Policy Committee lowered the repurchase rate by 25 basis points to 6.75% with effect from 21 July 2017, but kept the rate unchanged at its September and November 2017 meetings due to increased upside risk to the inflation outlook (*Source: SARB Quarterly Bulletin December 2017*). In January 2018 the committee further elected to keep the rate unchanged.

Operating environment impact

A weaker economic environment allows Capitec to attract more transactional banking clients who seek affordable solutions for their day-to-day banking requirements.

We are well hedged against interest rate movements, which means that the bank's profitability is not materially affected by movements in interest rates.

Uncertainty regarding the future value of the currency will have an impact on the cost of some goods and services that are not sourced locally. The bank has no unhedged currency exposure on debt raised.

The South African unsecured credit market

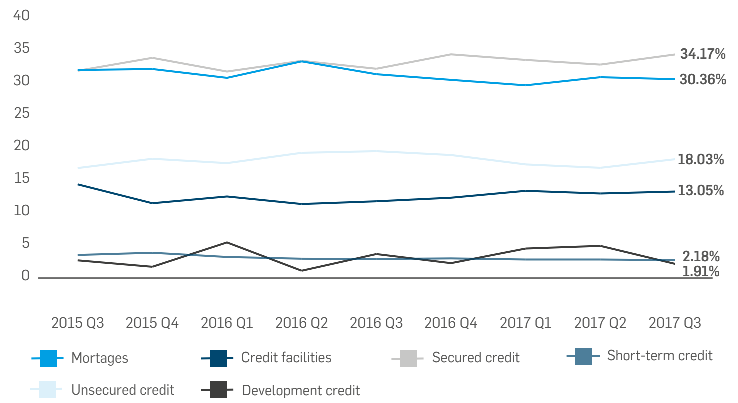
According to the NCR's consumer credit market report of September 2017, the total value of new credit granted for the 12-month period to end September 2017 increased by 5.21%, compared to 10.86% for the 12-month period to end June 2017.

The total number of applications for credit decreased by 209 000 to 9.9 million in September 2017, and the rejection rate for applications was 51.39%.

The unsecured credit share of total credit granted remained unchanged at R22.3 billion, 18.0% of total credit granted. Unsecured credit transactions include all transactions in respect of which the lender does not have any security (other than credit facilities or short-term credit).

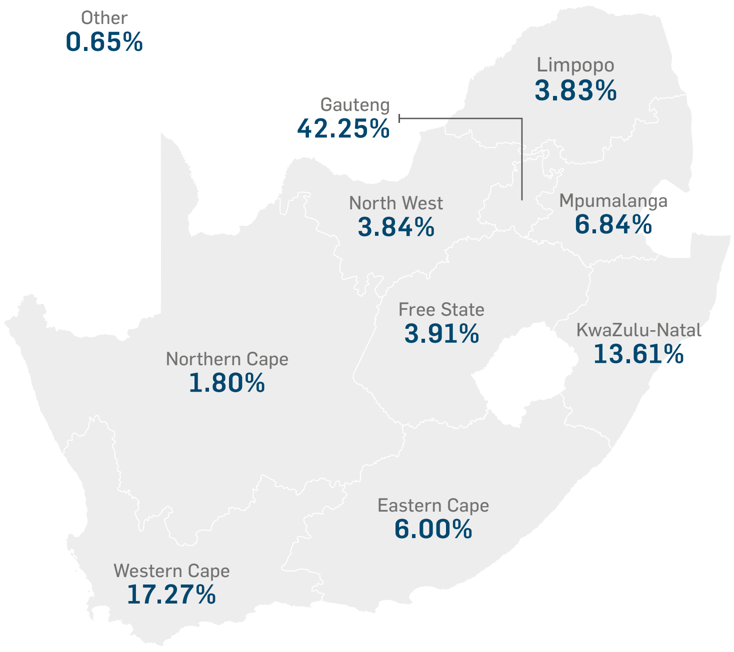
Unsecured credit agreements with a repayment period of between 3.1 and 5 years dominated Rand values and numbers.

CREDIT GRANTED (% DISTRIBUTION)



Source: Consumer Credit Market Report, Third Quarter, September 2017

PROVINCIAL DISTRIBUTION OF CREDIT GRANTED: 2017 – Q3



Source: Consumer Credit Market Report, Third Quarter, September 2017

Total credit market (loans advanced for 12 months to September 2017)

	Market (R'm)		
Credit type	**2017**	**2016**	**2015**
Secured credit	**162 418**	149 458	154 705
Mortgage	**145 981**	145 202	143 702
Unsecured and short-term	**98 045**	98 352	87 421
Credit facility	**61 705**	52 902	69 121
Development	**15 435**	12 398	6 473
Total	**483 584**	458 312	461 422

Source: NCR

Capitec market share of unsecured and short-term credit – 26.6%
Capitec market share of total credit market – 5.4%

Unsecured and short-term credit market (granted by income group for 12 months to September 2017)

	(R'm)		
Gross income	**2017**	**2016**	**2015**
R0 – R5 500	**9 245**	12 927	11 319
R5 501 – R10 000	**14 792**	17 087	16 831
R10 001 – R15 000	**17 381**	18 061	17 143
R15 000 plus	**56 627**	50 277	42 056
Total	**98 045**	98 352	87 421

Source: NCR

Read more about Capitec's credit granting model from page 94.

Trends in the credit market

Agreement type	2015 R'm	To 3rd quarter 2016 R'm	2016 R'm	To 3rd quarter 2017 R'm	Trend 2015/ 2014 (%)	Trend 2016/ 2015 (%)	Trend Q3 2016/ Q3 2015 (%)	Trend Q3 2017/ Q3 2016 (%)
Mortgages	147 060	105 563	142 906	**108 638**	7	(3)	(2)	3
Secured credit	154 869	107 686	149 874	**120 230**	4	(3)	(5)	12
Credit facilities	65 612	38 934	53 868	**46 771**	(2)	(18)	(25)	20
Unsecured credit	77 969	62 129	85 182	**62 425**	4	9	12	0
Short-term	15 031	9 263	12 660	**9 171**	127	(16)	(12)	(1)
Developmental credit	7 383	10 589	13 078	**12 946**	33	77	90	22
Grand total	**467 924**	**334 164**	**457 568**	**360 181**	**6**	**(2)**	**(3)**	**8**
Total Rand value of unsecured credit granted by size of agreements								
R0K – R3K	1 782	748	928	**541**	(14)	(48)	(47)	(28)
R3.1K – R5K	1 840	994	1 283	**855**	(5)	(30)	(26)	(14)
R5.1K – R8K	2 366	1 514	2 054	**1 316**	(6)	(13)	(11)	(13)
R8.1K – R10K	2 677	2 209	3 017	**2 004**	17	13	22	(9)
<=R10K	8 665	5 465	7 282	**4 716**	(2)	(16)	(13)	(14)
R10.1K – R15K	4 710	3 711	5 012	**3 239**	7	6	11	(13)
>R15.1K	64 594	52 954	72 888	**54 469**	4	13	15	3
Grand total	**86 634**	**67 595**	**92 464**	**67 140**	**4**	**7**	**12**	**(1)**
Total Rand value of unsecured credit granted by income category								
<=R10K	23 766	16 307	21 998	**13 022**	3	(7)	(2)	(20)
R10.1K – R15K	14 965	11 365	15 566	**11 141**	–	4	6	(2)
>R15K	39 240	34 453	47 610	**38 252**	6	21	23	11
Grand total	**77 971**	**62 125**	**85 174**	**62 415**	**4**	**9**	**12**	**0**
Current portion of gross debtors' book								
Mortgages	785 565	788 153	798 361	**817 762**	2	2	–	4
Secured credit	337 326	341 389	346 937	**361 506**	6	3	4	6
Credit facilities	181 227	179 897	184 301	**187 286**	7	2	2	4
Unsecured credit	117 552	121 379	123 771	**126 612**	(1)	5	6	4
Short-term	2 648	2 057	2 186	**1 870**	94	(17)	(9)	(9)
Developmental credit	31 000	38 484	39 576	**39 041**	40	28	2	1
Grand total	**1 455 318**	**1 471 359**	**1 495 132**	**1 534 077**	**4**	**3**	**2**	**4**

Source: Consumer Credit Market Report, Third Quarter, September 2017

Our regulatory environment

South African financial institutions operate in a highly regulated environment. The SARB is responsible for bank regulation and supervision to achieve a sound, efficient banking system. This protects the interest of depositors and the economy as a whole. The SARB issues banking licences and monitors activities related to the Banks Act, Act 94 of 1990 (Banks Act) and related regulations.

Other regulatory bodies have broad jurisdiction over further aspects of our banking business, including permissible rates of interest and fees charged to borrowers, capital adequacy, marketing and selling practices, advertising, licensing agents, terms of business and permitted investments. The main legislation is detailed below:

Legislation	Purpose
Basic Conditions of Employment Act, Act 75 of 1997	Gives effect to the right to fair labour practices by establishing and making provision for the regulation of basic conditions of employment
Companies Act, Act 71 of 2008	Provides for the incorporation, registration, organisation and management of companies
Compensation for Occupational Injuries and Diseases Act, Act 130 of 1993	Directs the compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees during their employment
Consumer Protection Act, Act 68 of 2008	Regulates the relationship between suppliers and consumers to protect the rights of consumers
Debt Collection Act, Act 114 of 1998	Establishes the Council for Debt Collectors to legalise the recovery of fees or remuneration by registered debt collectors
Electronic Communications and Transactions Act, Act 25 of 2002	Guarantees the validity of agreements concluded, either partly or wholly by a data message
Financial Intelligence Centre Act, Act 38 of 2001	Complements the Prevention of Organised Crime Act and provides an administrative framework to combat money laundering
Financial Sector Regulation Act, Act 9 of 2017	Establishes the Prudential Authority and the Financial Sector Conduct Authority to preserve and enhance financial stability by licensing and regulating financial product and service providers while supervising and regulating market conduct
Income Tax Act, Act 52 of 1962	Consolidates the law relating to the taxation of incomes and donations, provides for the recovery of taxes on persons, the deduction by employers of amounts from employees, remuneration in respect of certain tax liabilities and for making provisional tax payments and other related matters
Long-term Insurance Act, Act 52 of 1998	Provides for the registration of long-term insurers and the control of certain activities of long-term insurers and intermediaries
National Credit Act, Act 34 of 2005	Promotes a fair and non-discriminatory marketplace for access to consumer credit and improved standards of consumer information
Occupational Health and Safety Act, Act 85 of 1993	Provides for the health and safety of employees at work and against hazards arising out of, or in connection with, the activities of employees at work
Prevention of Organised Crime Act, Act 121 of 1998	Deals with money laundering, racketeering and criminal and civil forfeiture and sets out the substantive money laundering offences
Prevention and Combating of Corrupt Activities Act, Act 12 of 2014	Provides strengthening measures to prevent and combat corruption and corrupt activities and for the reporting of corrupt transactions or offences
Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2014	Regulates the intersection of certain communication
Protection of Personal Information Act, Act 4 of 2013	Promotes the protection of personal information processed by public and private bodies and establishes minimum requirements for the processing of personal information
Short-term Insurance Act, Act 53 of 1998	Provides for the registration of short-term insurers and for the control of certain activities of short-term insurers and intermediaries
Value-Added Tax Act, Act 89 of 1991	Indirect tax on consumption of goods and services in the economy

Emerging regulation includes a study by the National Treasury to inform draft legislation related to debt relief to over-indebted consumers, particularly low-income earners.

The provisions of the Financial Intelligence Centre Amendment Act, Act 1 of 2017, effective 13 June 2017, had limited impact on our operations and compliance obligations. As we prepared proactively for the provisions that came into effect on 2 October 2017, these had a limited impact on the bank. We launched a risk-based assessment (RBA) project to mitigate money laundering and terrorist financing risk, to ensure that we adhere to the principles of treating customers fairly and to confirm financial inclusion.

Our RBA framework continues to evolve as we gather more information and test our risk-scoring model towards the April 2019 implementation date. We are currently developing risk assessment methodologies to assess our clients, products, channels and transactions to document inherent risks. This will be followed by an evaluation of existing controls and the identification of areas where stronger control measures are necessary.

We welcomed the final Credit Life Insurance Regulations effective 9 August 2017. These regulations set the maximum limits for commissions, fees or expenses that may be charged per client. As our fees previously charged were below the regulatory limits, our clients and profitability were not adversely impacted. Our credit agreements concluded on or after the implementation date meet all the requirements and fee limits of insuring our clients' loans for death, permanent and temporary disability, unemployment, or when our clients are unable to earn an income.

Regulatory environment impact

Capitec endeavours to maintain healthy relationships with regulators and continued compliance with regulatory requirements. We see a move towards principle-based rather than traditional rules-based regulation happening. While these fundamental changes can be perceived as a risk, we find opportunities to improve our business.

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

Read more about our capital management approach in response to Basel 3 on page 106 and about Capitec's credit rating in the chairman and CEO's report on page 44.

04 *Leadership reviews*

leadership

We guide and assist our clients in transacting and financially interacting with the world as it evolves to ensure that, regardless of what happens, we can help improve their financial lives.

18%

Increase in headline earnings

28%

increase in total retail fixed savings

185 876

new clients joined us in the month of January 2018

41%

Net transaction fee income to total net income

R2bn

credit card book

Chairman's and CEO's report

Our credit granting approach consistently evolves with our clients' needs and behaviour as well as our risk appetite.

Steadfast fundamentals

We help clients manage their financial lives better, so they can live better. Our single financial solution, Global One, can be used in any way, from anywhere and at any time. We expect to achieve an active client base totalling 10 million by the end of this month. Our clients trust in our financial solution, delivers real value through personalised experience and supports continued growth. The simplicity of our solution ensures that clients know exactly what they pay for, and gives them full control of their money.

The results for the year are a reflection of the continuous focus on our fundamentals.

Earnings up 18%

Headline earnings increased by 18% from R3.8 billion to R4.5 billion, and generated a return of 27% on our shareholders' equity for the 2018 financial year.

Our diversification strategy is evident by the increased earnings generated from each income stream.

Net transactional income growth of 31%

Net transaction fee income (non-lending) increased from R3.9 billion to R5.1 billion in 2018. The net transaction fee income to operating expenses increased from 72% to 81%, which is in line with our objectives to cover all operating costs with net transaction fees by 2022.

Net transaction fee income now makes up 41% of total net income. This is a result of our focus on self-service banking, which has experienced a significant increase in transaction volumes. This investment and innovation delivers cost benefits and further efficiencies to our clients and frees up capacity for our consultants to better serve and address the needs of our clients in the branches. For the 5th consecutive year, the latest South African Customer Satisfaction Index (SAcsi) for Banking, conducted by Consulta, revealed that Capitec continues to lead with the most satisfied customers.

The increase in quality banking clients (a client becomes a quality banking client if they have stable inflows into their account and stable product usage over a consecutive 3 month period) of 18% and the continuous focus and improvement on our self-service banking transactions, increased total transaction volumes by 27%. Self-service banking transactions include the banking app, internet banking, unstructured supplementary service data (USSD – mostly used by clients who do not have smart phones), in-branch self-service terminals and dual note recyclers (DNRs).

74% of all possible transactions were performed by clients on self-service banking channels in 2018, compared to 62% in 2017. Transaction volumes for in-branch self-service terminals increased by 491%, and by 124% for DNRs in the current year.

Over 3 million clients have activated our banking app. For the month of February 2018, the app facilitated more than 20 million transactions. When our clients make use of our app, we cover the cost of the data. The banking app's wide appeal is evidenced by the fact that it is not only the most downloaded banking app in South Africa, but that it is also the 9th most downloaded app overall on the Google Play store in South Africa. This is according to the SA Social Media Landscape Report 2018 by brand intelligence organisation, Ornico, and high-tech market research consultancy, World Wide Worx.

Monthly average retail deposit growth of R800 million

Total retail fixed savings increased by 28% to R23 billion and total retail call savings increased by 16% to R35 billion for the current year. Any positive balance on our debit or credit cards earns interest of at least 5.1% per year. Our clients earned more than R3.4 billion in interest for the 2018 financial year.

Wholesale funding decreased from R7.5 billion to R6.2 billion. Wholesale funding was lowered deliberately due to the strong retail fixed deposit and earnings growth, accompanied by moderate loan book growth. Nonetheless, we will maintain a presence in the debt capital markets.

Personalised credit

Unsecured lending plays an important role in the South African credit market. The majority of South Africans, for example, live in dwellings on communal land or in townships with no title deeds. Consequently, the majority of the population is only able to build or improve their homes through accessing unsecured finance. More than 75% of South Africans do not have access to traditional secured lending to finance assets such as vehicles older than 5 years and appliances.

Our credit granting approach consistently evolves with our clients' needs and behaviour as well as our risk appetite. In line with the loan book growth, loan revenue increased by 6% for the current year and better performing loan book was achieved due to our conservative credit granting policy.

The 2018 financial year presents the first full 12 month performance of our credit card. As at 28 February 2018, 289 000 active credit cards were in issue, with a total book value of R2 billion. This represents 4.2% of the total loan book. The monthly fee on our credit card is R35. The performance is in line with our expectations.

Arrears as a percentage of gross loans and advances decreased from 6.3% to 5.7%. This includes all loans that are not up-to-date with contractual obligations. Arrears and up-to-date loans that were rescheduled from arrears (not rehabilitated – have not made 6 consecutive contractual payments) as a percentage of gross loans and advances, decreased from 9.8% to 8.3%. This is a direct result of the stricter credit granting strategy and rescheduling policy as well as the increase of clients in debt review. In terms of our bad and doubtful debt methodology, regardless of loan status, when a client goes into debt review, the outstanding loan balance is substantially written off.

Our provision for doubtful debts as a percentage of gross loans and advances decreased from 13.1% to 12.2% and the provision coverage of arrears increased from 208% to 216%. The lower provision percentage and higher coverage ratio is a direct result of the better performing loan book.

The increase in bad debt written off in the current year is mostly due to the increase in the number of clients in debt review. Bad debts recovered increased due to improved collection efficiencies and initiatives.

Investing in our operations

Our operating costs increased by 17% from R5.4 billion to R6.4 billion in the current year. Our cost-to-income ratio is 36%.

The focus on self-service banking to improve efficiency and capacity in existing branches resulted in the opening of 30 new branches in strategic areas during the year. We now have 727 DNRs and 467 in-branch self-service terminals to aid in the improvement of our service and client experience – the increases of which amount to 38% and 213%, respectively. Key personnel appointments were made in business development and digital solutions to support further growth initiatives.

Insure

We believe that offering insurance solutions that are personalised and competitively priced will deliver value to our clients and disrupt the insurance market in a similar way to what we do in banking.

Save. Transact. **Insure**. Credit.

The unique funeral traditions in South Africa often result in clients who earn an income being responsible for the considerable costs of a funeral for either a direct family member or a dependant in their broader community.

We aim to launch the Capitec Funeral Plan, underwritten by Sanlam, in May 2018, as part of Insure, the new addition to our Global One Solution. This is an opportunity to further diversify our business and expand our product offering to clients to improve their financial lives.

Our funeral cover solution ensures that clients will only contribute what they can afford. A single contract can benefit up to 21 dependants. The voluntary pause option will allow policyholders to put their policy on hold for a maximum of 6 months if they are under financial strain. The new-born premium waiver benefit celebrates additions to clients' families at no cost for up to 6 months while still enjoying cover and peace of mind. Should an unnatural death or accident occur, the life assured will be covered immediately at twice the amount.

We believe that this solution will provide our clients with financial means to cover expenses during a period when they need someone they can trust and rely on.

Strong capital, low liquidity risk, excess funds

Capitec remains well capitalised with a capital adequacy ratio of 36%. The bank continues to meet all prudential requirements.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 1 878% and NSFR is 206% as a result of the conservative liquidity strategy we implemented since the inception of the bank.

We manage our clients' funds in a diligent and conservative manner. Client deposits are invested in simple and easy to understand interest-bearing investments such as South African National Treasury Bills. These investments are, on average, for periods shorter than 3 months, with no single investment longer than 1 year. We use our equity, the wholesale funds received from institutions and, the bulk of fixed-term client deposits, to lend out to individual clients. We have a conservative approach to credit, price appropriately in compliance with the National Credit Act, Act 34 of 2005, for the risk and make adequate provisions for bad debt. Our approach to capital is consistent with our approach to liquidity and credit, and our capital levels are well above that which is required. This policy will continue to be applied as consistently as it has been since inception. Through deliberately maintaining substantial levels of capital, we protect client deposits should a major unforeseen event, such as a global financial crisis, occur.

Credit ratings

The South African sovereign rating was downgraded on 24 November 2017. In its ratings report, S&P Global indicated that it does not rate financial institutions in South Africa above the foreign currency sovereign ratings. Consequently, S&P Global lowered its ratings on 6 financial institutions operating in South Africa, including Capitec Bank.

Capitec Bank's global long-term rating was lowered to "BB" from "BB+". The global short-term rating remains at "B". These ratings carry a stable outlook. While, the national long-term rating was lowered to "zaAA-", the national short-term rating was affirmed at "zaA-1+". Capitec Bank carries the same long-term foreign currency rating as the South African sovereign.

Thank you

We will continue to help people better manage their financial lives. We want to thank our clients for their continued support and for the confidence they place in us.

Our solutions for our clients would not be possible without the great drive from the entire Capitec family. As colleagues with individual strengths and skills, we make a strong team because of shared goals and commitment. We thank every member of the team for their part in what we have achieved, and are excited to pursue the goals we have set for ourselves.

Prospects

Sustained focus on our fundamentals will keep us on course to become the best retail bank in the world.

Dividend

The directors declared a final gross dividend of 945 cents per ordinary share on 26 March 2018, bringing the total dividends for the 2018 financial year to 1 470 cents per share. There are 115 626 991 ordinary shares in issue.

The final dividend meets the definition of a dividend in terms of the Income Tax Act (Act 58 of 1962). The dividend amount, net of South African dividend tax of 20%, is 756 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 17 April 2018
Trading ex-dividend commences	Wednesday, 18 April 2018
Record date	Friday, 20 April 2018
Payment date	Monday, 23 April 2018

Share certificates may not be dematerialised or rematerialised from Wednesday, 18 April 2018 to Friday, 20 April 2018, both days inclusive.

The chief financial officer's review is available at www.capitecbank.co.za.

On behalf of the board

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
27 March 2018

CFO report

Our results are the value we deliver to our clients through personal service.

We report our results for the financial year below, under our single Global One Solution: Save. Transact. Insure. Credit.

Save

For our equity shareholders: we remain well capitalised, pursue a desired return on equity of 25%, maintain a dividend cover of approximately 2.6 and aim to generate sustainable earnings growth.

For our retail and wholesale depositors and bondholders: we target a competitive interest return on investment, low liquidity risk and a stable credit rating.

Transact

An all-inclusive banking solution that provides diverse ways to transact via any of our channels. This simple solution is easy to access from anywhere, at any time and in any way. The focus is on providing essential banking to all clients, regardless of income level.

Insure

We are improving our clients' financial lives by expanding our product range. This supports the diversification and sustainability of our business.

Credit

Our personalised credit solution achieves the best possible credit limit, over the optimal repayment term, with the best interest rate. This is offered to clients based on their past banking and credit behaviour, affordability and stability of their source of income, using data from, the credit bureaus, bank statements and payslip information.

Save

Equity shareholders

		2018	2017
ROE	%	**27**	27
HEPS	cents	**3 858**	3 281
Total dividends per share	cents	**1 470**	1 250
CAR	%	**36**	34

Earnings up 18%

Headline earnings per share (HEPS) increased by 18% from 3 281 cents per share in 2017 to 3 858 cents per share in 2018. We generated a return on ordinary shareholders equity of 27% for the year – consistent with the prior year. The dividend cover remained at 2.6 resulting in a total dividend declared for the year of 1 470 cents compared to 1 250 cents in the prior year, an 18% increase. The compound annual growth rates (CAGRs) are as follows:

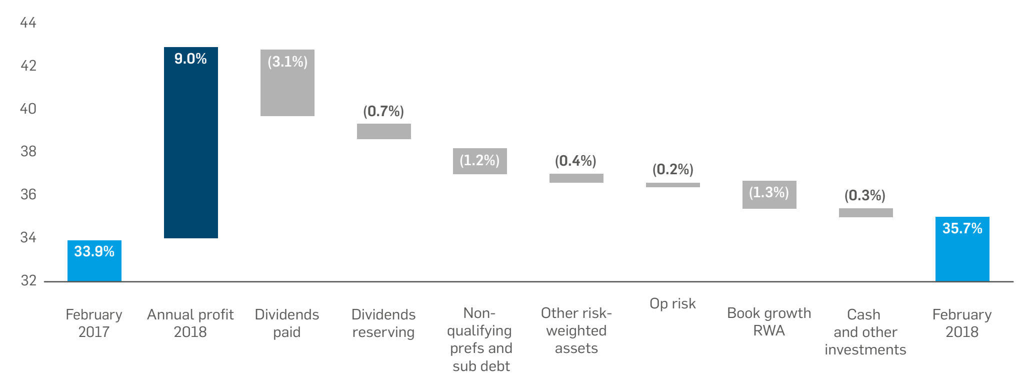
	Since listing in 2002 (%)	Last 10 years (%)	Last 5 years (%)	Last 3 years (%)	2018 (%)
Headline earnings	33	39	23	21	**18**
Headline earnings per share	27	33	20	20	**18**
Dividend	28	34	21	21	**18**
Share price	51	37	35	27	**15**

Capital

We continue to remain well capitalised, with a capital adequacy ratio (CAR) of 35.7% (2017: 33.9%) and a CET1 ratio of 33.9% (2017: 30.8%). The bank continues to meet all prudential requirements.

A total of R38 million non-qualifying perpetual preference shares and R200 million subordinated debt were redeemed during the financial year. These preference shares and subordinated debt instruments are subject to the applicable phase-out rules in terms of Basel 3.

YTD CHANGE IN CAR (%)



REPORT OVERVIEW
CAPITEC AT A GLANCE
OUR OPERATING ENVIRONMENT
LEADERSHIP REVIEWS
LEADERSHIP TEAM AND OVERSIGHT
RISK MANAGEMENT
OUR EMPLOYEES
REMUNERATION REPORT
SOCIAL RESPONSIBILITY
APPENDICES

International Financial Reporting Standards (IFRS) 9 *Financial Instruments,* will become effective for our financial year ending on 28 February 2019.

The group will apply IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 March 2018 will be adjusted for any differences in the carrying amounts of financial instruments. Our IFRS 9 model has run parallel to our IAS 39 model on a monthly basis for the past 2 years. The current findings indicate that there are no major deviations in the current classification of financial assets as they are largely in line with IFRS 9. We are in the process to align the disclosure and classification of loans and advances in terms of IFRS 9, based on our current write-off policy.

The group has identified that the most significant impact IFRS 9 will have relates to the expected credit loss (ECL) impairment model on the up-to-date book. Currently under IAS 39, we apply an incurred but not reported (IBNR) emergence period of 3 months. Under IFRS 9, we will apply a 12 month ECL view on the up-to-date loan book. Our rescheduled loan book provision that currently considers a 12 month forward looking period will extend to a lifetime ECL under IFRS 9.

The provisioning methodology is aligned to the credit granting strategy by applying the behaviour scores of clients. We identify significant increases in credit risk (SICR) on clients that are up-to-date on their loans, but certain behaviour risk thresholds are reached or specific events have occurred that raise a SICR flag. The 12 month ECL is extended to a lifetime for these clients.

The current IAS 39 provision raised on clients that are in arrears is already on a lifetime ECL and the same is required in terms of IFRS 9.

Based on the IFRS 9 provisioning methodology, we expect our opening retained earnings on 1 March 2018 to be adjusted by an estimated range of between R850 million and R950 million (pre-tax). This is in line with what we disclosed in the prior year after taking the growth in the loans and advances book into consideration.

For capital adequacy purposes, the opening retained earnings and deferred tax adjustment will be phased in as specified per the South African Reserve Bank (SARB) directive 5 of 2017. For CAR purposes, a deferred tax asset balance is risk weighted at 250%. The total CAR impact at a midpoint of this range will be approximately 1.7%. This will result in a CAR decrease of 0.4% for the 2019 financial year.

The new section 11(jA) of the Income Tax Act that relates to the allowance that banks may claim on their provision balance for doubtful debts, becomes effective for tax years of assessment when IFRS 9 is implemented. A further deferred tax asset will arise in our 2019 financial year due to a different percentage allowance which, we will be able to claim when IFRS 9 becomes effective, as opposed to what we currently claim. The increase in the deferred tax asset balance as a result of the new tax law amendments is subject to the same phase-in period. We estimate the total increase in the deferred tax asset due to the change in tax law to decrease the CAR by 0.8%, 0.2% for the 2019 financial year.

Retail and wholesale deposit and bondholders

		2018	2017
Debt-to-equity		**3.5:1**	3.6:1
Retail call deposits	R'm	**34 909**	30 117
Retail fixed savings	R'm	**22 915**	17 922
Wholesale funding	R'm	**6 206**	7 543
NSFR*	%	**206**	187
LCR**	%	**1 878**	1 152
Credit ratings			
Global:			
– long term		**BB**	BB+
– short term		**B**	B
National:			
– long term		**zaAA-**	zaA
– short term		**zaA-1+**	zaA-2

* *NSFR – Net stable funding ratio*
** *LCR – Liquidity coverage ratio*

The debt-to-equity ratio decreased to 3.5:1 (2017: 3.6:1). Total deposits increased by 15% to R64 billion in 2018.

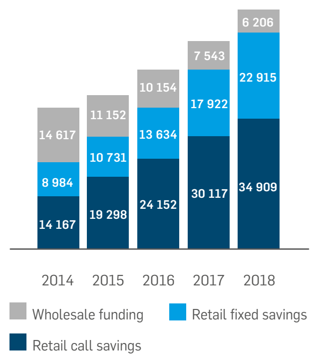
Retail deposits increased by 20% to R58 billion of which retail call savings grew 16% to R35 billion due to strong client growth in 15% during 2018. Retail fixed savings grew 28% to R23 billion, reflecting a sustained increase in clients' trust of our brand. The weighted average maturity of retail fixed funding was 18.1 months at February 2018 (February 2017: 18.4 months).

Wholesale funding (institutional bond and other funding) declined by 18% to R6.2 billion in 2018. Wholesale funding was deliberately managed lower due to the loan book growth, compared to strong retail fixed deposits and earnings growth.

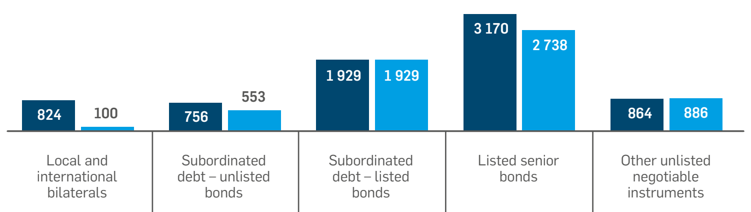
The weighted average maturity of wholesale funding was 19.7 months at February 2018 (February 2017: 23.4 months).

We auctioned R500 million of bonds in May 2017 that was 4.3 times over-subscribed, indicating continued strong support. We will always retain a presence in the debt capital markets.

COMPOSITION OF DEPOSITS (R'm)



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
2017	824	756	1 929	3 170	864
2018	100	553	1 929	2 738	886

* *Denotes text that forms part of the group's audited annual financial statements.*

*

Liquidity

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

This conservative approach results in inherent compliance with the Basel 3 LCR and the NSFR. LCR compliance was required from 1 January 2015, with a minimum required ratio of 90% for 2018, increasing to 100% by 2019. Our LCR exceeded these minimums with a ratio of 1 878% (2017: 1 152%). NSFR compliance of 100% is required from 2018 onwards. Our NSFR is 206% (2017: 187%).

*

To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. Funding that is surplus to operational requirements total R34.7 billion (2017: R26.5 billion). These are invested in low-risk, liquid, interest-bearing instruments. These assets provide a positive return.

The weighted average remaining maturity of the investment portfolio at 28 February 2018 was 76 days (28 February 2017: 99 days). None of the longer-term investments has an original contractual maturity of longer than 1 year, which assists in managing interest rate risk.

Credit rating

Capitec Bank is rated by Standard & Poor's Global Ratings (S&P). S&P affirmed these ratings on 24 November 2017:

Global	– "BB" long-term rating
	– "B" short-term rating
National	– "zaAA-" long-term rating
	– "zaA-1+" short-term rating

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

Transact (non-lending)

		2018	2017
Net transaction fee income	R'm	5 127	3 923
Net transaction fee to net income	%	41	37
Net transaction fee income to operating expenses	%	81	72
Active clients	million	9.9	8.6
Branches		826	796
Devices			
– ATMs		1 168	1 128
– Dual note recycler (DNRs)		727	525
– Partnership ATMs		2 750	2 371
– Total		4 645	4 024

The growth in our active client base, the expansion of our device and branch network and the investment in self-service banking has resulted in a 31% year-on-year increase in net transaction fee income (2017: 30%).

A DNR is similar to an ATM but has the enhanced functionality of allowing clients to also deposit cash instead of having to walk into a branch. The fees charged to a client to deposit cash at a DNR is 90c per R100 compared to a branch cost of R1.90 per R100.

Quality banking clients are those who have stable inflows into their account and stable product usage over a consecutive 3-month period. Our quality banking client base grew by 18% to 2.6 million clients (2017: 2.2 million). At 28 February 2018, our quality banking clients comprise 26% of our total active client base.

* *Denotes text that forms part of the group's audited annual financial statements.*

Primary banking clients are those who make regular deposits, mainly salaries.

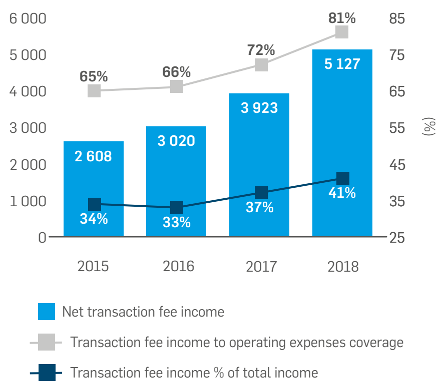
We increased our primary banking accounts on average by 31 000 per month in the 2018 financial year.

Our diversification objectives include covering all operating expenses with net transaction fees by 2022. The net transaction fee income to operating expenses increased from 72% to 81%. The net transaction fee income as a percentage of total net income improved to 41% (2017: 37%).

At 28 February 2018, our device network increased by 4% for ATMs and 38% for DNRs, with our device net transaction fee income increasing by 41%. Our device net transaction fee income comprises 19% of our total net transaction fee income for the year.

Net transaction fee income from debit orders, of which the majority relates to our quality banking clients, increased by 17% year-on-year (2017: 19%). Our branch network increased by 4% and income from branches increased by 27% (2017: 31%) due to improved efficiency and capacity created in-branch. The net transaction fee income from branches is 24% of our total net transaction fee income for the year. Expanding these networks ensures greater accessibility for our growing client base across all channels.

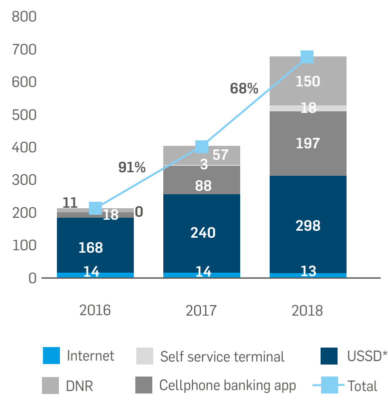
NET TRANSACTION FEE INCOME (R'm)



Our continued focus on and investment in self-service banking innovation is an integral part of our strategy to help clients better manage their financial lives. Self-service banking (banking app, internet banking, self-service terminals, DNR and USSD*) net transaction fee income increased year on year by 68%. Self-service terminals allow clients to walk into a branch and print bank statements with a touch of a screen and a swipe of a card without needing to speak to a consultant. The fee charged to a client for printing a bank statement at a self-service terminal is R2.50 compared to R5.00 if requested from a consultant. These initiatives directly result in an increase in branch capacity, which enables our consultants to better serve our clients and address their needs, along with achieving savings in bank charges for the client.

The banking app was launched in the 2016 financial year. Its increased popularity is evident from the 2.9 million clients who activated the app. The banking app net transaction fee income growth increased year-on-year by 122% (2017: 401%).

SELF-SERVICE BANKING (R'm)



* *Unstructured supplementary service data (USSD) provides mobile users with menu-driven interactive services – mostly used by clients who do not have smart phones.*

REPORT OVERVIEW
CAPITEC AT A GLANCE
OUR OPERATING ENVIRONMENT
LEADERSHIP REVIEWS
LEADERSHIP TEAM AND OVERSIGHT
RISK MANAGEMENT
OUR EMPLOYEES
REMUNERATION REPORT
SOCIAL RESPONSIBILITY
APPENDICES

Credit

		2018	2017
Credit sales			
Value of total loans advanced	R'm	28 292	27 226
Number of total loans advanced[1]	'000	3 947	3 508
Average of total loans advanced	R	7 168	7 761
Average loans advanced less than or equal to 6 months[1]	R	2 078	1 905
Average loans advanced greater than 6 months	R	32 133	26 605
Credit book			
Gross loans and advances	R'm	47 642	45 135
Average loan size at year end less than or equal to 6 months	R	2 621	2 736
Average loan size at year end greater than 6 months	R	36 302	31 123
Arrears – past due (not up-to-date with contractual obligations)	R'm	2 700	2 855
Arrears to gross loans and advances	%	5.7	6.3
Up-to-date that rescheduled from arrears (not rehabilitated[2])	R'm	1 277	1 583
Arrears and up-to-date that rescheduled from arrears (not rehabilitated[2]) to gross loans and advances	%	8.3	9.8
Up-to-date that rescheduled from up-to-date (not rehabilitated[2])	R'm	1 085	1 088
Arrears and all rescheduled (not rehabilitated[2]) to gross loans and advances	%	10.6	12.2
Provision for doubtful debts	R'm	5 828	5 930
Provision for doubtful debts to gross loans and advances	%	12.2	13.1
Provision for doubtful debts to arrears coverage	%	216	208
Provision for doubtful debts to arrears and rescheduled loans from arrears (not rehabilitated[2]) coverage	%	147	134
Provision for doubtful debts to arrears and all rescheduled loans (not rehabilitated[2]) coverage	%	115	107
Repayments[3]	R'm	35 974	33 236
Gross provision for doubtful debts charge	R'm	6 560	6 246
Bad debts recovered	R'm	1 280	1 125
Net provision for doubtful debts charge	R'm	5 280	5 121
Net provision for doubtful debts charge to average gross loans and advances	%	11.4	11.9
Total lending and insurance income (excluding investment income)[4]	R'm	15 008	14 362
Total lending and insurance income (excluding investment income)[4] to average gross loans and advances	%	32.4	33.4
Net provision for doubtful debts charge to total lending and insurance income (excluding investment income)[4]	%	35.2	35.7
Loan revenue[5]	R'm	14 596	13 720
Loan revenue[5] to average gross loans and advances	%	31.5	31.9

[1] Includes credit card. For a number of loans advanced, a month in which the credit card is utilised is counted
[2] Not rehabilitated – clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months. Once rehabilitated, the loan is classified as up-to-date
[3] Includes bad debts recovered and early settlements where a subsequent loan is taken, the last repayment does not lead to an outflow – prior years are restated to include this
[4] Interest received on loans, initiation fees, monthly service fee and net insurance income
[5] Interest received on loans, initiation fees, monthly service fee, net insurance income and loan fee expense

*

Loan-granting strategy

The reason why clients approach credit providers for credit is that they have specific requirements. These requirements include the need for emergency cash, education, second-hand vehicles, and housing.

Unsecured lending plays a beneficial role in South Africa. One example of the role of unsecured lending is that a large section of the South African population live in dwellings on communal land and townships with no title deeds. These people can only build or improve their houses by accessing unsecured finance. Supporting this assertion is the fact that there are only 1.7 million mortgages in South Africa. Furthermore, more than 75% of South Africans do not have access to traditional secured lending to fund assets such as vehicles older than 5 years or appliances.

We encourage clients to match the term of the loan to the requirement for funds. Thus short-term loans and facilities (similar to overdrafts) are used for cash flow reasons, while medium-term loans are matched against appliances and education. The predominate use of long-term loans is for housing. By continuously refining our credit offer, we are able to provide clients unsecured credit solutions that best suit their personal needs and at competitive interest rates compared to the secured credit market.

In order to execute on this solution, we incorporate a comprehensive assessment of the client's behaviour, affordability and source of income. For the assessment, we use information from the credit bureaus, bank statements and payslips. We apply 3 parallel disposable income calculations i.e. the NCA affordability calculation, a Capitec client disposable income calculation that maintains conservative buffers and the client's own calculation. We then apply the most stringent of the 3. Branch staff have no credit granting discretion and all exceptions are managed and monitored by a centralised specialist team.

During the loan application process, we present the maximum loan amount, maximum term and maximum instalment to the client. Within these constraints, the client may select any combination that best suits her or him. We encourage clients to take up credit for shorter periods of time and for smaller amounts. This is done through a pricing model that discounts the interest rate in instances where clients select a term that is shorter than the maximum that they qualify for. This is due to the manner in which the pricing for risk model reacts to the lower default rates for such clients.

* *Denotes text that forms part of the group's audited annual financial statements.*

The fact that we have 9.9 million active clients allows us to analyse both the financial health of the client and monitor and identify trends. We use this to inform and support our credit granting appetite and to identify risk areas and opportunities.

There are various circumstances where clients may return later to take up additional credit, for example to fund projects such as home improvements or studies, and the funds are required over a period of time as the project or studies progress.

* When existing clients apply for further credit, we again conduct a full credit assessment. If a client qualifies for further credit, it can be extended as a further agreement in addition to the current credit; or the client can have the existing credit consolidated into a new credit agreement. This is only available for clients if instalments are up-to-date (not in arrears on any Capitec loans) and clients who have a satisfactory credit risk. Only the amount of the separate new credit will be included in loan sales.

Our scoring models react to instances where a client repeatedly takes up credit, and when their debt to income ratio becomes too high. In such instances we limit the term and amount of credit offered to clients or we decline the application for credit.

We report the net amount of credit issued and we exclude the consolidation loans from loan sales.

The stricter granting strategy that we have applied since 2016 has resulted in lower growth in loan sales and loan revenue, whilst delivering a better performing loan book.

Loan sales

We achieved loan sales (new credit granted) of R28.3 billion this year (2017: R27.2 billion). The number of loans granted during the year increased to 3.9 million from 3.5 million in 2017.

Loan sales do not include any rescheduled loans. Rescheduling is an amendment to an existing loan contract with no new credit granted. No initiation fees are charged on rescheduled loans.

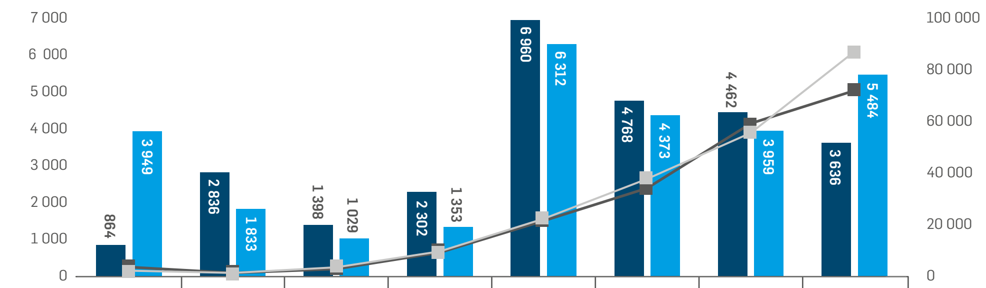
Loan sales in the 61 to 84 month category increased by 51% in 2018. Growth in the 61 to 84 month loans sales is driven by clients earning more than R20 000 (gross monthly income). This was achieved by a more accurate high-income earner risk model, made possible by our growing higher-income client base. These clients that subsequently opt for a shorter-term loan at a more competitive interest rate have driven the loan sales in the 13 to 36 month category.

The 2018 financial year presents the first full year that our credit card has been in operation. By 28 February 2018, 289 000 credit cards were in issue, with gross loans and advances reflecting R2 billion, or 4.2% of the credit book.

The credit card book is included in loans and advances less than or equal to 6 months. In each month that a credit card is utilised, 1 loan is counted towards the number of loans and advances granted. In terms of loan sales for the year, the average credit amount less than or equal to 6 months increased from R1 905 to R2 078, and the average credit amount greater than 6 months increased from R26 605 to R32 133.

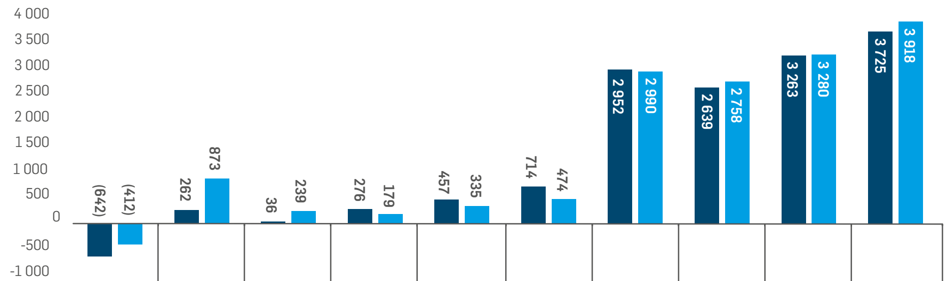
The total average credit amount granted decreased from R7 761 to R7 168 due to the number of credit cards in issue during the year compared to the prior year.

LOAN SALES BY PRODUCT (R)



	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017 (R'm)	864	2 836	1 398	2 302	6 960	4 768	4 462	3 636	27 226
2017 % of total	3.2	10.4	5.1	8.5	25.6	17.5	16.3	13.4	100
2018 (R'm)	3 949	1 833	1 029	1 353	6 312	4 373	3 959	5 484	28 292
2018 % of total	14.0	6.5	3.6	4.8	22.3	15.5	14.0	19.3	100
Average size of loan Feb 2017 (R'm)	3 703	1 438	2 976	9 372	21 638	34 319	59 418	72 153	
Average size of loan Feb 2018 (R'm)	2 296	1 439	3 626	9 805	22 435	37 910	55 758	87 295	

LOAN REVENUE BY PRODUCT (R'm)



	First party cell	Third party cell	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017	(642)	262	36	276	457	714	2 990	2 639	3 263	3 725	13 720
2018	(412)	873	239	179	335	474	2 952	2 758	3 280	3 918	14 596

Loan revenue

Loan revenue is in line with the book growth of 6%, but interest income on loans has remained flat for the year. This is as a result of a lower interest yield on lower-risk loans advanced since 2016 and the fact that a larger portion of the book attracts a separable insurance charge.

From 6 May 2016 onwards, all loans greater than 6 months and certain credit card risk categories, required clients to obtain credit life insurance of their choice. We provide credit life insurance to clients under a third-party cell captive structure, if clients choose to obtain the necessary insurance through us. The credit book pre and post 6 May 2016 remains to be reinsured with top-rated reinsurance providers.

* *Denotes text that forms part of the group's audited annual financial statements.*

All related lending, investment and insurance income is separately disclosed in note 21 of our annual financial statements. To compare interest income on a like-for-like basis when comparing year-on-year, the table below presents a reconciliation of the related loan revenue that takes the all-in charge into account.

Loan-related revenue reconciliation (R'm)	2018	2017	% change
Interest income on loans and advances to clients	**12 440**	12 389	0
Loan origination fees	**776**	836	(7)
Monthly service fee	**919**	875	5
Net insurance income*	**873**	262	234
Loan fee expense**	**(412)**	(642)	(36)
Loan-related revenue	**14 596**	13 720	6

* Third-party cell captive net insurance income through Guardrisk from 6 May 2016
** First-party cell captive insurance expense on loans granted before 6 May 2016 that are still on the credit book

The loan-related revenue reconciliation provides the comparative basis to the growth in the loan book.

We welcome the final Credit Life Insurance Regulations that came into effect on 9 August 2017. Our credit agreements concluded on or after this date meet all the necessary requirements and fee limits of insuring our clients in unfortunate cases of death, retrenchment, permanent and temporary disability or unemployment.

As the fees previously charged were below the regulatory limits implemented on 9 August 2017, our clients and profitability were not affected by these regulatory changes. For all credit life cover, we charge according to the client's risk and loan balance that remains outstanding. The fee adjusts downwards over the term of the loan as capital is repaid. This ensures our clients only pay to cover the value of the loan balance that remains outstanding. In terms of retrenchment, the Regulations require minimum cover equal to 12 months of the instalments due, but we continue to give our clients cover for the full loan balance outstanding and reinsure on this basis.

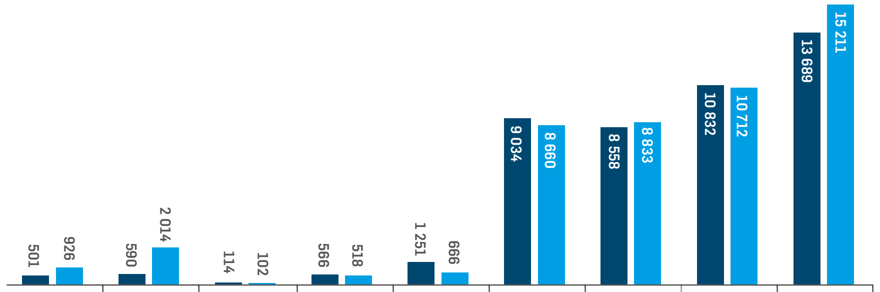
The costs incurred for every loan application are calculated and recovered through an initiation fee charged to a client who is successful in their application and takes up their loan. In terms of common practice, we charge the entire cost related to the loan application upfront when incurred. In terms of our accounting policy, the fee to recover this cost is deferred and amortised over the term of the loan on an effective interest rate basis. The fee is included under interest income and is disclosed separately in note 21 of the annual financial statements. Initiation fees are only charged on new loan sales and all initiation fees comply with the National Credit Act (NCA). No initiation fees are charged on rescheduled loans. When a client receives additional credit on consolidation of a loan, only the additional credit that is advanced is subject to initiation fees. Only this new credit advanced is included in loan sales for the financial year.

Initiation fees comprise 5.2% of total lending and insurance income (excluding investment income) (2017: 5.8%), and 4.4% of income from operations for 2018 (2017: 5.3%). We charge clients a monthly fee for term loans, overdrafts, facilities and credit cards that are well below the NCA price caps. Monthly fees comprise 6.1% of total lending and insurance income (excluding investment income) (2017: 6.1%), and 5.2% of income from operations for 2018 (2017: 5.5%).

Reconciliation of the credit book (R'm)	2018	2017
Opening gross loan book	**45 135**	40 891
Credit sales – value of total loans and advances	**28 292**	27 226
Total lending and insurance income (excluding investment income)*	**15 008**	14 362
Repayments**	**(35 974)**	(33 236)
Third-party cell captive cost***	**563**	214
Bad debts written off	**(6 662)**	(5 447)
Bad debts recovered	**1 280**	1 125
Closing balance	**47 642**	45 135

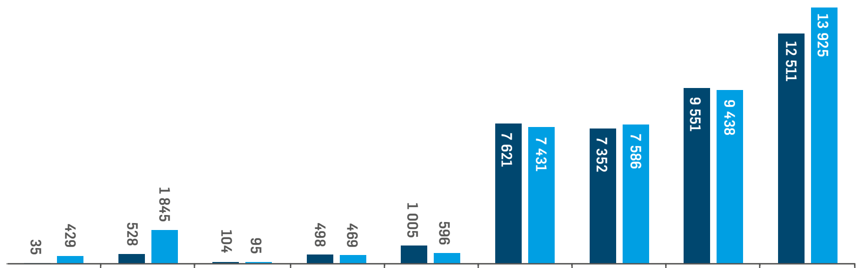
* Interest received on loans, initiation fees, monthly service fee and net insurance income
** Includes bad debts recovered and early settlements where a subsequent loan is taken, the last repayment does not lead to an outflow – prior years are restated to include this
*** Third-party loan insurance through Guardrisk is an option to our clients since 6 May 2016. We reflect the income net of cost. The cost represents third-party reinsurance costs

GROSS LOAN BOOK BY PRODUCT (R'm)



	Other	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017 Gross	501	590	114	566	1 251	9 034	8 558	10 832	13 689	45 135
%	1.1	1.3	0.3	1.3	2.8	20.0	18.9	24.0	30.3	100.0
2018 Gross	926	2 014	102	518	666	8 660	8 833	10 712	15 211	47 642
%	1.9	4.2	0.2	1.1	1.4	18.2	18.6	22.5	31.9	100.0

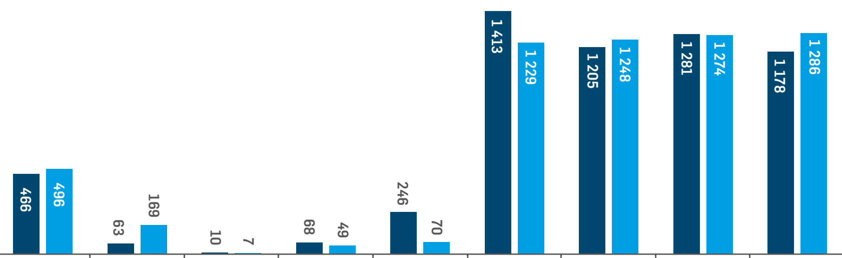
NET LOAN BOOK BY PRODUCT (R'm)



	Other	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017 Net*	35	528	104	498	1 005	7 621	7 352	9 551	12 511	39 205
%	0.1	1.3	0.3	1.3	2.6	19.4	18.7	24.4	31.9	100.0
2018 Net*	429	1 845	95	469	596	7 431	7 586	9 438	13 925	41 814
%	1.0	4.4	0.2	1.1	1.4	17.8	18.2	22.6	33.3	100.0

* Net loans and advances net of impairment provisions.
It should be noted that the above chart is not a maturity analysis. Clients repay part of the capital on each of the product types in the following month, the month thereafter and so forth.

PROVISION FOR DOUBTFUL DEBT BY PRODUCT (R'm)



	Other	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017	466	63	10	68	246	1 413	1 205	1 281	1 178	5 930
%	7.9	1.1	0.2	1.1	4.2	23.8	20.2	21.6	19.9	100.0
2018	496	169	7	49	70	1 229	1 248	1 274	1 286	5 828
%	8.5	2.9	0.1	0.8	1.2	21.1	21.4	21.9	22.1	100.0

The credit book

The following terminology is used when referring to the credit quality of loans and advances to clients:

Loan status	Description
Up-to-date	Clients that are fully up to date with their original contractual obligations or amended contractual obligations that are rehabilitated, post rescheduling, are classified as up-to-date.
Arrears	Past due loans and advances reflect the total outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid against the contractual payment date, that is 1 day past the contractual payment date but not more than 3 months in arrears. The arrears balance therefore includes rescheduled loans when the adjusted instalment was not paid.
Rescheduling	Rescheduling refers to an amendment of the original terms of the loan contract, as formally agreed between us and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact us when wanting to reschedule their loans due to changes in their circumstances. No initiation fee is charged on a rescheduled loan as no new credit is granted.
Rehabilitated	Clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling. This is supported by statistical analysis.
Rescheduled from up-to-date not rehabilitated	These are loans and advances relating to clients that were fully up to date with their original contractual obligations, however have contacted us to reschedule the original terms of their loan due to a change in their circumstances and have made payment under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made consecutive payments for 6 months under the amended contract.
Rescheduled from arrears not rehabilitated	These are loans and advances relating to clients that were in arrears and were subsequently rescheduled and have made payment under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended contract.
Expected recoveries receivable	The net present value of expected future recoveries on loans written off.
Write-off	The earlier of loan balances that have a legal status, e.g. debt review or deceased, handed over or are 3 months or more in arrears, are substantially written off.

Analysis of net loans and advances by status – 2018

R'000	GROUP							
	Performing book					Non-performing book		
	Up-to-date	Rescheduled from up-to-date not rehabilitated	Sub-total	Rescheduled from arrears not rehabilitated	Sub-total	Arrears	Expected recoveries receivable	Total
Gross loans and advances	**41 673 695**	**1 085 352**	**42 759 047**	**1 277 234**	**44 036 281**	**2 699 936**	**906 273**	**47 642 490**
Cumulated provision	**(3 234 766)**	**(188 907)**	**(3 423 673)**	**(649 648)**	**(4 073 321)**	**(1 754 774)**	**–**	**(5 828 095)**
	38 438 929	**896 445**	**39 335 374**	**627 586**	**39 962 960**	**945 162**	**906 273**	**41 814 395**
Provision %	**7.8**	**17.4**	**8.0**	**50.9**	**9.2**	**65.0**		**12.2**

Analysis of net loans and advances by status – 2017

R'000	GROUP							
	Performing book					Non-performing book		
	Up-to-date	Rescheduled from up-to-date not rehabilitated	Sub-total	Rescheduled from arrears not rehabilitated	Sub-total	Arrears	Expected recoveries receivable	Total
Gross loans and advances	39 084 980	1 087 996	40 172 976	1 582 527	41 755 503	2 854 870	524 984	45 135 357
Cumulated provision	(3 024 728)	(166 384)	(3 191 112)	(820 757)	(4 011 869)	(1 918 508)	–	(5 930 377)
	36 060 252	921 612	36 981 864	761 770	37 743 634	936 362	524 984	39 204 980
Provision %	7.7	15.3	7.9	51.9	9.6	67.2		13.1

Credit quality of gross loans and advances shown in up-to-date

R'000	GROUP 2018	2017
Up-to-date – never rescheduled	**39 452 802**	36 624 152
Up-to-date – rescheduled from up-to-date and fully rehabilitated	**1 228 460**	1 529 180
Up-to-date – rescheduled from arrears and fully rehabilitated	**992 433**	931 648
	41 673 695	39 084 980

The average loan size at year end greater than 6 months was R36 302, whereas the average loan amount sold (new credit granted) greater than 6 months was R32 133 for the current year. The difference is best explained by the way of an example:

Assume 4 loans of R12 500 each and 1 loan of R50 000 were granted during the year. This results in an average loan amount sold of R20 000 per loan for the period. If 1 of the 4 R12 500 loans is fully repaid, the average loan size at year end would be R21 875.

This example explains the possibility of having an average credit book greater than the average credit granted.

* Loans and advances in the up-to-date not rescheduled status as a percentage of gross loans and advances increased from 81.1% to 82.8%. Arrears as a percentage of gross loans and advances decreased from 6.3% to 5.7% in the current year. This is a direct result of the implementation of our stricter granting strategy and rescheduling policy since 2016, along with the increase in the number of clients in debt review (discussed under bad debts written off below). Our arrears as a percentage of gross loans and advances are low due to our strict write-off policy.

Arrears and up-to-date loans rescheduled from arrears (not rehabilitated) to gross loans and advances, decreased from 9.8% to 8.3%. Arrears and all rescheduled loans (not rehabilitated) to gross loans and advances decreased from 12.2% to 10.6% in the current year. The rescheduling policy that we applied has prevented lower risk clients from rescheduling that are currently up-to-date with their loan instalments and clients in arrears from rescheduling if their risk is deemed to be too high.

The significant increase in expected recoveries received of R906 million (February 2017: R525 million) is due to a larger proportion of the credit book that related to debt review being written off. Loans that are written off due to debt review have a higher recovery.

If the client is in arrears due to challenges regarding the client's inability to repay the debt, we either negotiate with the client to immediately bring the arrears instalments up to date, or we attempt to help and manage the situation through agreeing a course of action with the client by amending the loan agreement (loan reschedule).

The first solution is preferable, as it:
- reduces arrears if the client pays on the same date;
- improves our cash flow;
- helps restore the client to a creditworthy position; and
- limits the overall cost of credit for clients.
- Practically, there is a risk that placing too much pressure on clients (such as expecting clients in financial distress to repay 2 instalments in a single month when they cannot afford to do so) can be counter-productive. In such a case, clients could refuse to cooperate, stop communicating with us and stop paying instalments.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. The circumstances may include:
- employers that reduce overtime and bonuses or place staff on short pay due to difficult economic conditions;
- strikes;
- clients may be forced to change employment at reduced salaries due to poor performance or health problems; or
- financial problems faced by employers.

These instances may result in a client missing an instalment on a loan and being in arrears.

We have extensive history that measures the yields we can receive by handing clients over to external debt collectors. We monitor the cash flow yields that we receive from this process against internal collection processes, including rescheduling. We optimise the strategy for different client groups and use handover samples for each strategy to monitor the relative performance and validate the strategy for each client group.

Factors that we consider in delivering the optimal strategy for a client include:
- the risk profile and payment history of the client;
- the arrears status of the client (1 or 89 days in arrears, for example);
- whether the client was rescheduled previously;
- the credit exposure amount;
- free cash flow estimates derived from clients' bank accounts or credit bureau records (salary less debit orders); and
- any information we have about the client's employer.

Depending on a combination of factors, the optimal strategy is to encourage clients with some free cash flow or limited credit exposure to bring arrear instalments up to date; or assist clients in cash flow difficulty but have good behaviour history, to reduce their instalments and extend the term of the credit agreement (i.e. reschedule). When there is a clear temporary interruption of income such as a strike or a client is on maternity leave, we may allow a reduced instalment for a short period (typically 3 months) with subsequent increased instalments, in order to assist the client through this period (i.e. variable reschedule). We hand over clients and write the loan off, when the problem appears to relate to the clients' unwillingness or inability to pay.

We use system-based rules to limit instances where we allow rescheduling. We do not reschedule all loans that meet our criteria, as this depends on the individual circumstances of each client applying to reschedule. Successfully treating clients that were in arrears decreases the overall quality of the loan book, as clients who would otherwise have been written off remain on balance sheet. We do however, treat, monitor and separately disclose the performance of these clients. (See provisions discussed below.) We monitor the performance and cure rate of reschedules. Based on statistics, we decrease write-offs by approximately 25%.

This process allows us to optimise collections and reduce clients' debt levels. Our aim is always to partner with our clients through both good and tough times and act in their best interest.

Provisioning

Capitec uses a provisioning model based on historic roll rates using the Markov chain method. At every month end, each loan is categorised with a specific status, for example:
- up-to-date with a contract delinquency of zero (CD0);
- clients who have missed an instalment and are 1 day up to 1 month in arrears (CD1);
- greater than 1 month up to 2 months in arrears (CD2);
- greater than 2 months up to 3 months in arrears (CD3); or
- clients that reschedule from either up-to-date or arrears statuses that are now up-to-date or in arrears.

The model calculates the historic rates at which clients change statuses between the categories. We typically use a 12-month rolling average, but also monitor longer-term (24-month) averages to understand trend changes. We apply the most conservative result, i.e. if there were "bad" trends 13 to 24 months ago, we stretch the statistics to the past 24 months. If the bad trends occurred in 1 to 12 months, we use the 12 months, so the effect is not watered down. When instalments are not fully paid, our model reflects clients in the higher delinquency status (i.e. we treat partial payment similar to no payment).

Furthermore, we raise a provision on client as opposed to product level, i.e. if a client with more than 1 loan (term loan and a credit facility) defaults on any of his/her loans, the total balance of the client (term loan and credit facility) attracts the higher CD provision percentage.

We stratify the Markov roll rate results into similar groups to ensure results are stable and appropriate to predict future cash flows for clients with similar characteristics. We stratify on aspects such as client risk groups, time on book, product term, payment frequency (monthly, fortnightly or weekly), default statuses, employment, industry and rescheduling status. From 1 March 2018, we will also apply the behaviour scores of clients to this list.

One of the fundamental principles that we designed into the model is to distinguish between status changes from arrears to up-to-date due to the repayment of instalments, as opposed to status changes resulting from rescheduling. This is important, as we use the model to estimate cash flows. When the status of a loan changes from CD1 at the end of the first month to CD0 (up-to-date) at the end of the second month, the model interprets this as a repayment. However, a status change from CD1 to CD0 accompanied by a rescheduling indicator reflects no repayment. We record status changes for rescheduled loans separately, which enables us to estimate cash flows accurately for rescheduled loans.

The model combines the roll rate matrices with a loan amortisation model on a loan-by-loan basis. The specific features of each loan such

* Denotes text that forms part of the group's audited annual financial statements.

* Denotes text that forms part of the group's audited annual financial statements.

* as balance, interest rate, fees, remaining term, instalments and arrears status, combined with the roll rates applicable to loans with the same characteristics, estimate the expected cash flow and balance amortisation of the loan. The rolled-up results enable us to analyse portfolio and segmented views. The doubtful debt provision calculation amounts to the excess of the balance of a loan over the present value of its expected cash flows, discounted at an effective all-in rate (all fees and interest).

At 28 February 2018, the model estimated average provision rates of 8% for clients in CD0, 42% for clients in CD1, 78% for clients in CD2 and 88% for clients in CD3. The model estimated provision rates of 17% for clients rescheduled out of arrears (not rehabilitated) and since rescheduling remained in CD0. This is more than double the provision rate for clients who have never rescheduled, but less than half the percentage relating to clients in CD1. Although the model predicts a default rate of 17% for rescheduled clients, the provision is maintained at 51%, as we do not release the arrears bucket provision when the client reschedules. Provisioning rates change monthly and are based on statistics.

* We continuously validate the results by monitoring the cash flow yields on the rescheduled portfolio relative to similar clients in arrears. The results confirmed that rescheduled clients perform significantly better than clients that remained in arrears, but worse than not-rescheduled up-to-date clients. The analysis also indicated that the risk remained elevated for a period of approximately 6 months (9 months in the case of variable rescheduled loans due to the 3 month period during which we allow reduced instalments) relative to clients who have not rescheduled.

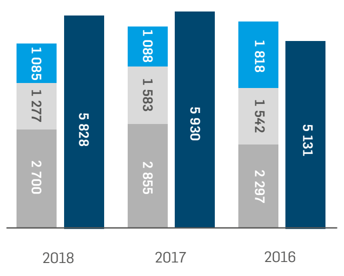
For provisioning purposes, we release the difference between the arrears provision and the rescheduling provision over a period of 12 months. Should the client default on the rescheduled loan, the client is included in CD1, but at an increased provision percentage, that reflects the escalated risk. The provision results confirm the validity of the strategy of rescheduling, where the appropriate client characteristics were identified, as an effective solution to rehabilitate clients in arrears.

* The provision for doubtful debts as a percentage of gross loans and advances decreased to 12.2% from 13.1% last year. The movement is a reflection of the performance of the loan book and stricter granting strategy.

The up-to-date portion of the loan book that carries a lower provision balance increased, while the loans in arrears that carry a larger provision balance decreased. This resulted in the total decrease of the provision balance when compared to the growth in the loan book.

We continue to be prudent in our approach to provisioning, with an arrears coverage ratio of 216% (2017: 208%), arrears and rescheduled loans from arrears not rehabilitated coverage ratio of 147% (2017: 134%), and arrears and all rescheduled loans not rehabilitated coverage ratio increasing to 115% (2017: 107%).

PRUDENT PROVISIONING



Bad debt written off

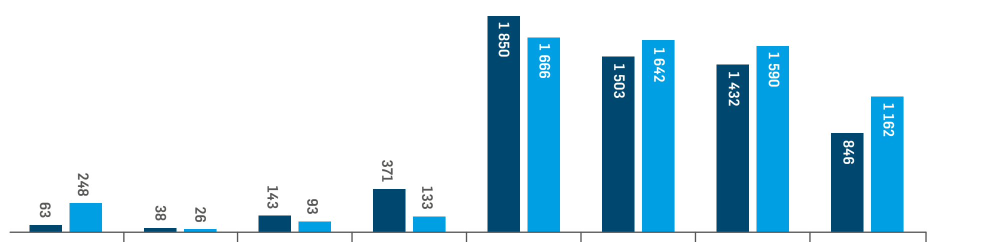
The net provision for doubtful debt charge was R5.3 billion for the year, an increase of 3% (2017: R5.1 billion) and is 11% (2017: 12%) of average gross loans and advances. The net impairment charge comprises bad debts written off, the movement in the provision for doubtful debts and bad debts recovered.

* As per our bad and doubtful debt methodology, a client who is in debt review, is substantially written-off, irrespective of the clients' loans status prior to being in debt review. The client could be up-to-date with all instalments but once in debt review, the balance is immediately written-off without rolling into arrears. The major increase in bad debts written-off in the current year is due to the increase of clients in debt review and loans advanced under a different granting and risk strategy of prior periods that was provided for.

The decreased movement in the provision for doubtful debts balance is due to the stricter granting strategy and the overall performance of the loan book.

	2018	2017	2016	2015
Bad debts written off	**6 662**	5 447	3 981	4 396
Movement in provision for doubtful debt	**(102)**	799	1 274	220
Gross provision for doubtful debt charge	**6 560**	6 246	5 255	4 616
Bad debts recovered	**(1 280)**	(1 125)	(854)	(602)
Net provision for doubtful debt charge	**5 280**	5 121	4 401	4 014

GROSS PROVISION FOR DOUBTFUL DEBT CHARGE (R'm)



	Credit card	Credit facility	1 – 6 months	7 – 12 months	13 – 36 months	37 – 48 months	49 – 60 months	61 – 84 months	Total
2017	63	38	143	371	1 850	1 503	1 432	846	6 246
2018	248	26	93	133	1 666	1 642	1 590	1 162	6 560

* *Recoveries*

Bad debts recovered increased by 14% year on year from R1.1 billion to R1.3 billion in 2018. This increase is due to the improved efficiencies in our debt collection environment.

* *Denotes text that forms part of the group's audited annual financial statements.*

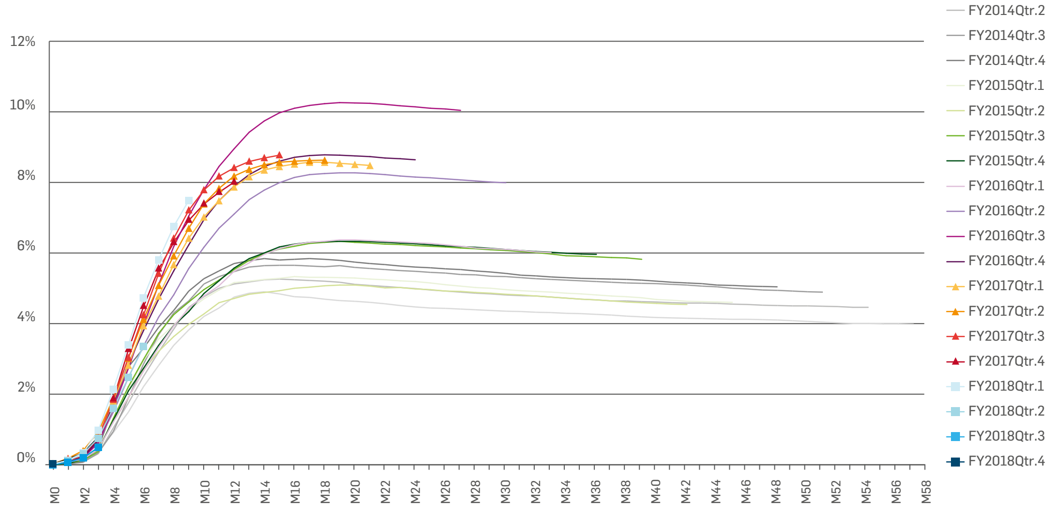
* *Denotes text that forms part of the group's audited annual financial statements.*

Vintage graphs

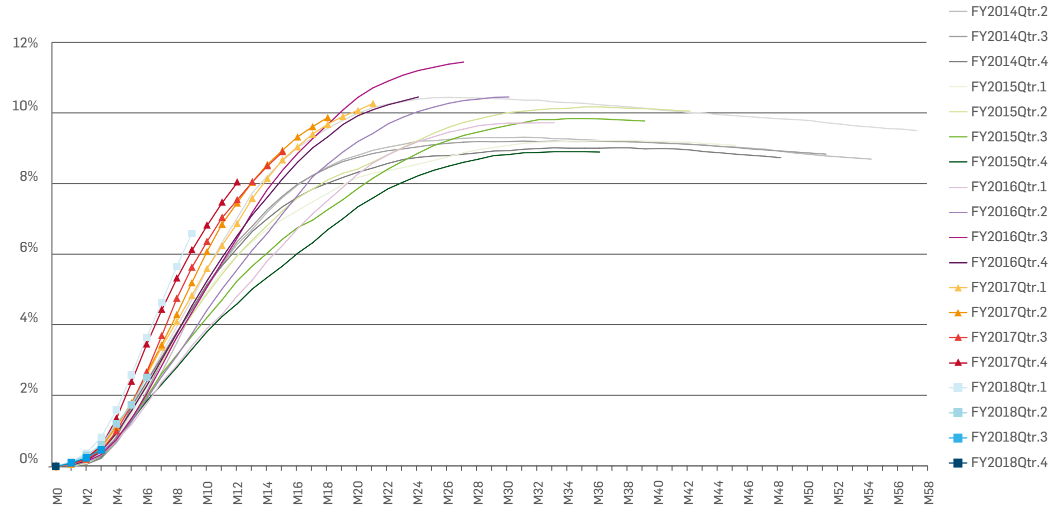
We grant credit using risk based pricing, and price for the probability that a client will default on payments. This is expressed as a probability that a client would be 3 months or more in arrears, legally handed over to external debt collectors or under debt review (written-off). As part of the continuous evaluation of performance against the priced risk, any deviations identified in specific groups of clients are addressed to ensure we remain within our risk appetite.

The vintage graphs below express the balance at risk at time of write-off as a percentage of the total original planned instalments for the loans granted in a given quarter. The vintages reflect our experience of write-offs but do not include post write-off recoveries. (Over the past 2 financial years we have found debt review to have been a large contributor to our bad debts written off. Our experience of recoveries on debt review is more than on other written off debt. If this was factored into the below vintages, the curves would trend lower).

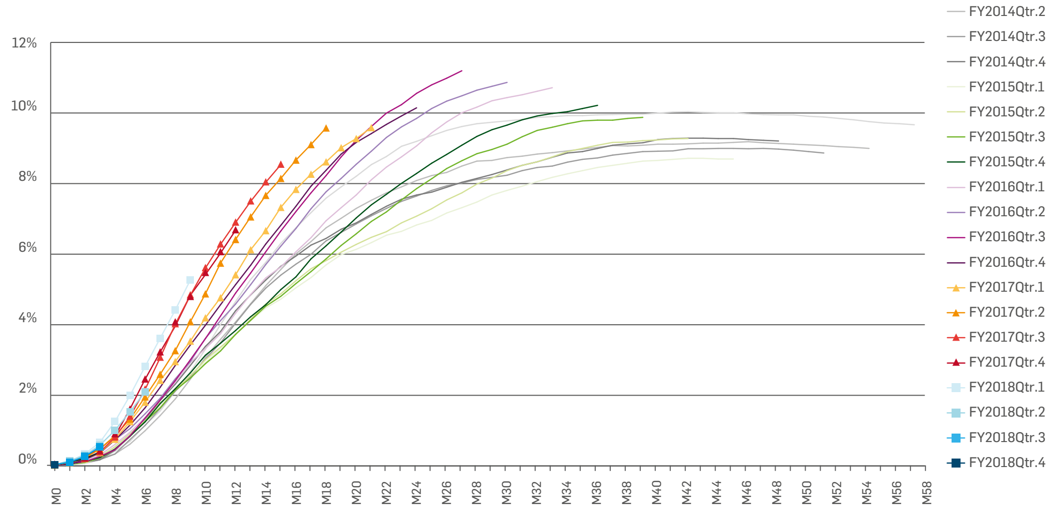
7 – 12-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



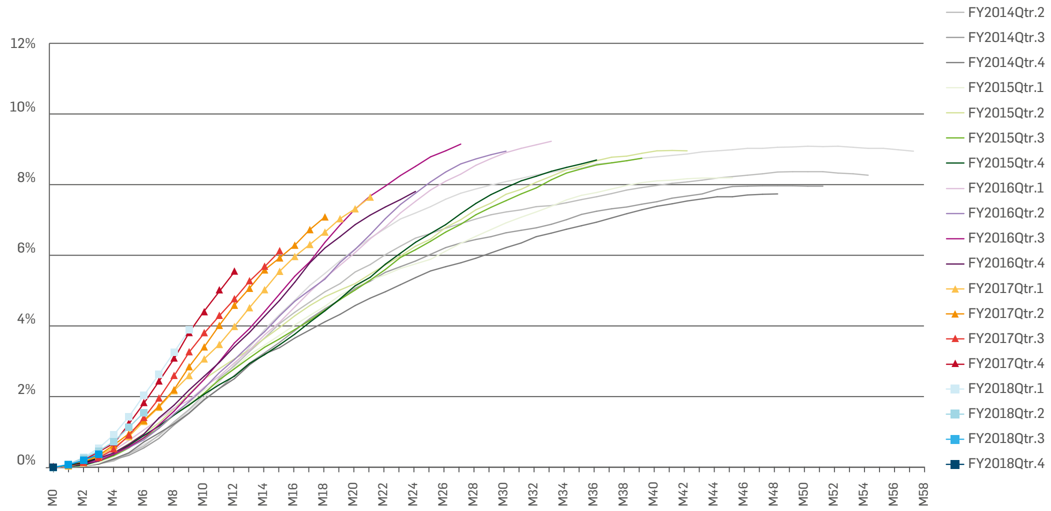
13 – 36-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



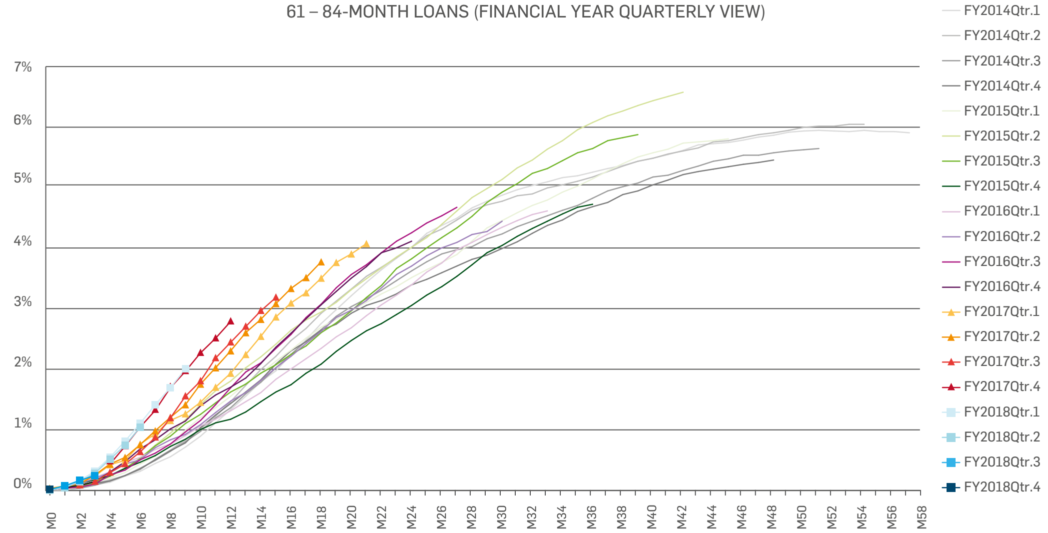
37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



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



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



Operating and capital expenditure

		2018	2017
Cost to income ratio	%	**36**	34
Number of employees		**13 333**	13 069
Operating expenditure	R'm	**6 364**	5 439
Employee costs	R'm	**3 294**	2 835
Capital expenditure	R'm	**829**	1 000

Client-centric focus and personal service drives investment in operations. The objective this year was to enhance the client experience by improving efficiency and the diversification of our Global One Solution.

Our cost-to-income ratio increased from 34% for 2017 to 36%. Operating costs increased with 17% for the year in line with earnings growth.

Improving efficiencies and increasing capacity in existing branches resulted in 30 new branches opening in strategic areas during the year compared to 76 new branches in the prior year.

Basic employee salary expenses increased by 18% (2017: 21%) due to the growth of key personnel in digital solutions focused on business development.

Capital expenditure decreased by 17% (February 2017: 42% increase) as a direct result of executing the strategy of improving efficiency and capacity in existing branches.

Regulation

The regulatory environment constantly changes. We proactively contribute to and manage our regulatory environment by taking care of the interests of our stakeholders and clients.

The table below summarises the status of these developments and their impact:

Regulator	Status
South African Reserve Bank (SARB)	Capitec is closely involved in the development of a more secure debit order collection system called Authenticated Collections/DebiCheck which aims to replace the existing AEDO and NAEDO systems. The banks and selected users are in a pilot phase and the system must be fully implemented by 31 October 2019. The impact of changes will be addressed in our processes.
	Review of the various methods used for calculating the capital requirements for credit risk, and the 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.
	Introduction of the Deposit Insurance Scheme (DIS), a wholly owned subsidiary of the SARB, which will require banks to contribute to the fund. Contributions are based on the level of covered deposits, which covers up to R100 000 per client deposit.
	IFRS 9 will implemented from 1 March 2018. Capitec has selected to phase in the CAR impact as specified per SARB Directive 5 of 2017. For CAR purposes, a deferred tax asset balance is risk weighted at 250%. The total CAR impact will be an approximate 1.7% decrease by adjusting the opening retained earnings and the related deferred tax asset.
South African Revenue Service (SARS)	A new section 11(jA) of the Income Tax Act relating to the allowance banks may claim with respect to the balance of doubtful debts provision becomes effective in the first tax year of implementing IFRS 9. A further deferred tax asset will arise due to a different percentage allowance which we will be able to claim, when IFRS 9 is effective, as opposed to what we currently claim. The increase in the deferred tax asset balance as a result of the new tax law amendments is subject to the same phase-in period for CAR purposes. We estimate the total decrease on the CAR to be 0.8%.
Department of Trade and Industry (dti) and National Credit Regulator (NCR)	Draft National Credit Amendment Bill was published in the Government Gazette, No. 41274 of 24 November 2017 and BASA submitted its comments to the Portfolio Committee of Trade and Industry. The Bill introduces a "Debt Intervention" mechanism (similar to debt review) which includes the right of the National Consumer Tribunal (NCT) to extinguish a debt in its entirety. An amount of debt may need to be written off as well as the formation of a debt intervention department within the bank.
	MFSA (Micro Finance South Africa) is challenging the NCR and DTI regarding the economic feasibility of the Credit Life Insurance Regulations. If the court agrees with MFSA the regulations published in the Government Gazette 40606 on 9 August 2017 may be suspended.

Our 2019 financial year budget has been approved by the board and we look forward to executing on the strategy and objectives that we have set ourselves to achieve.

André du Plessis
Chief financial officer

05 Leadership team and oversight

team and oversight

We realise that we can only be the best retail bank in the world if our stakeholders recognise us as such.

KING IV™

King IV™ applied and explained

33.3%

board race level diversity achieved

+2

new independent non-executive appointments were made on 6 April 2017

REPORT OVERVIEW
CAPITEC AT A GLANCE
OUR OPERATING ENVIRONMENT
LEADERSHIP REVIEWS
LEADERSHIP TEAM AND OVERSIGHT
RISK MANAGEMENT
OUR EMPLOYEES
REMUNERATION REPORT
SOCIAL RESPONSIBILITY
APPENDICES

Our corporate governance outcomes

We adhere to our values and are committed to the 4 core fundamentals of our business: simplicity, affordability, accessibility and personalised experience.

Our ethical culture

We work in an environment where the rules apply equally to all – regardless of position or role. We constantly challenge upwards and downwards to ensure robust and sound decision-making. We put the client first by acting with energy and taking ownership: this is defined in the Capitec Way behaviours.

A range of policies published on the Capitec Bank intranet prescribe our policies prohibiting sexual harassment, fraud, bribery and corruption, including the acceptance of gifts and legal and regulatory compliance. Our disciplinary code provides further guidelines to behavioural norms and standards.

All employees have access to Tip-offs Anonymous, which contact details are published on the bank's intranet.

Read more in the how we do business section from page 10.

Measuring good performance

Our MOS tracks performance indicators at 15-minute intervals, which means that we can, for example, measure what every minute costs in a branch. Through the Capitec Way we aim to create ownership and use measurement in support of improved performance.

Our board approves the business plan for each year and tracks performance against indicators at each board meeting. Management is enabled to identify issues quickly and act accordingly. Our performance track record supports this: we have been creating value for our stakeholders since Capitec was established in 2002.

Read more about our performance in the key indicator summary on page 2.

Ensuring effective control

Our MOS offers an integrated review system to manage objectives, business plans, budgets and risk. The MOS measures operational and resource efficiency on all levels of the business. This supports effective decision-making based on accurate and real-time data.

Best governance practice and management requirements direct us to implement control measures to report accordingly.

The board is ultimately responsible for effective control through its committee structure and approved policies, supported by the MOS and collaborative risk and internal audit functions. Our ability to identify the correct data and report accordingly to the respective board committees provide the board with the comfort that they have oversight of data, which they can trust.

Read more in our risk report from page 88.

Earning legitimacy

Through relationships we can improve people's financial lives. To achieve this and to make banking better, we work with all contributing stakeholders. We interact with regulators to find industry solutions and meet with investors to help them understand our performance. In our branches, we greet clients by hand and do regular surveys and data analyses to get to know them better. This helps us make banking simple, accessible and affordable.

Our management team members spend time in the branches talking to clients. They track complaints and monitor social media to garner insights into what people say about Capitec.

We recruit branch employees from local communities and invest in social initiatives that focus on education and financial life skills programmes.

Read more about who our stakeholders are on page 26 and the recognition we receive through awards on page 24.

Brand personality

We are:	***We are not:***
Pioneering	Complacent
Modern	Trendy
Straightforward	Pretentious
Quietly confident	Chest-beaters/boastful
Authentic	Fake
Supportive	Disempowering
Smart	Arrogant
Informal	Formal
Personalised	Indifferent
Respectful	Disrespectful

Leadership team

We pride ourselves on responsible, ethical leadership as the basis for good corporate citizenship and sustainable performance.

Board of directors

At the core of our success, is effective and ethical leadership provided by an experienced and skilled board of directors and executive management committee.

Non-executive directors

Michiel Scholtz du Pré le Roux (68)

BComm LLB, DComm (hc)

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

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

Petrus Johannes Mouton (41)

BComm (Maths)

Chairman of the social and ethics committee

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

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

Riaan Stassen (64)

BComm (Hons), CA(SA)

Chairman of the board and the directors' affairs committee

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

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

Nonhlanhla Sylvia Mjoli-Mncube (59)

BA, MA (City and regional planning)

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

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

Chris Adriaan Otto (68)

BComm LLB

Chris has been an executive director of PSG Group since its formation and has served as a non-executive director since February 2009. He is also a director of Capevin Holdings, Distell Group, Kaap Agri and Zeder Investments.

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

Independent non-executive directors

Lindiwe Angela Dlamini (48)

BA LLB, LLM (Tax)

*Chairperson of the human resources and remuneration committee**

Lindiwe is the group executive: human resources at PPS. Previously she was the managing director: retail at Alexander Forbes Group Holdings (2013 – 2015) and group executive: emerging consumer markets at Liberty Holdings (2011 – 2013). She gained extensive experience in various legal and risk management roles as well as in operations and customer services at Liberty Group (1998 – 2011).

Lindiwe was appointed to Capitec and Capitec Bank's boards on 6 April 2017.

* From 1 March 2018

John David McKenzie (71)

BSc (Chemical Eng), MA

Chairman of the risk and capital management committee and lead independent director

Jock serves on the boards of a number of companies. He was the chairman and chief executive officer of Caltex Petroleum Corporation until 2001. He was extensively involved in the merger of Caltex, Chevron and Texaco and was president – Asia, Middle East and Africa – of Chevron-Texaco until 2004. Between 1997 and 2003 he was a member of a number of advisory boards in Singapore, including the American Chamber of Commerce. He was the founding president of the South Africa–Singapore Business Council and a member of the Singapore Economic Development Board. Since 2004 he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as the chairman of the Commission of Inquiry into the Singapore Electricity and Gas Supply Systems. In South Africa he has consulted for, inter alia, Sasol, the South African Petroleum Industry Association's investigation into the impact of the global economic crisis on the South African oil industry and other related topics. He currently serves on the boards of Coronation Fund Managers, Sappi and Zululand Distilling Company and is the chairman of the UCT Foundation, the Carleton Lloyd Educational Trust and the Rondebosch Schools Education Trust.

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

Kabelo Makwane (41)

BComm

Kabelo is the managing director of Technology Accenture, South Africa. Previously he was the managing director of Microsoft, Nigeria (2013 – 2016) which he successfully developed into a stand-alone subsidiary of Microsoft Corporation. He gained extensive experience in information technology and sales during his career at Storgate Africa (2001), Datacentrix (2001 – 2003), Unisys (2004), Cisco Systems (2004 – 2009) and Microsoft, South Africa (2009 – 2013).

Kabelo was appointed to Capitec and Capitec Bank's boards on 6 April 2017.

Jean Pierre Verster (37)

BCompt (Hons), CA(SA), CFA, CAIA

Chairman of the audit committee

Jean Pierre is currently an equity portfolio manager at Fairtree Capital. Previous positions include investment analyst at 36ONE Asset Management and analyst and portfolio manager at Melville Douglas Investment Management. Prior to entering the investment management industry, he fulfilled various roles within the Standard Bank Group, including as a credit and corporate research analyst in its Global Markets Research division, where he analysed companies' financial position from a credit perspective. He commenced his career in 2005 as a financial manager in the insurance services environment and in 2006 he gained experience as an internal auditor in the retail banking environment.

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

Executive directors

Gerhardus Metselaar Fourie (54)

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

Gerrie was head: operations at Capitec Bank from 2000 until his appointment as chief executive officer of Capitec and Capitec Bank effective 1 January 2014. He commenced his career at Stellenbosch Farmers' Winery in 1987 in the financial planning department, following which he was appointed as the area general manager of KwaZulu-Natal and later Gauteng. He serves on the Mastercard MEA advisory board.

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

Nkosana Samuel Mashiya (42)

MComm (Economics)
Executive: risk management

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

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

André Pierre du Plessis (56)

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

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

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

Executive management committee

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

Executive management committee

Jacobus Everhardus Carstens (49)

BCompt (Hons), CA(SA)
Executive: credit

Jaco joined Capitec Bank in 2004. He gained extensive experience in the credit environment at Old Mutual Bank from 2000 to 2004, serving at various times as head of credit, head of credit risk: policy and decision support, and assistant divisional manager: credit, pricing and decision support. Previous positions include manager at Boland Bank from 1997 to 1999 and assistant manager at Ernst & Young from 1992 to 1997.

André Olivier (50)

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

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

Francois Viviers (35)

BComm (Hons)
Executive: marketing and communications

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

Hendrik Albertus Jacobus Lourens (52)

BComm (Hons), CA(SA)
Executive: operations

Henk joined Capitec Bank's predecessor in 1999 as head of the branch acquisitions department. He was appointed as operations manager responsible for the Northern Cape, Western Cape, Eastern Cape, Free State and KwaZulu-Natal in 2001 which position he held until 2007 when he became the national sales manager. Henk was appointed as executive: operations effective 1 January 2014. Before joining Capitec Bank, Henk was the financial director of Group Five Building – Western Cape. He commenced his career with Ernst & Young.

Executive management committee

Willem de Bruyn (47)

BSc (Hons), (Computer Science)

Executive: information technology

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

Leonardus Venter (56)

BA (Hons), MA (Industrial psychology)

Executive: business support centre

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

Nathan Stephen Tlaweng Motjuwadi (51)

BA (Hons), UED, MBA

Executive: human resources

Nathan joined Capitec Bank in 2010 with almost 15 years' experience in the human resources/training environment. Prior to joining the bank, he was employed by XPS Services, Cyborg Systems, Coca-Cola (SA) (based in South Africa and London) and Danone SA. Nathan started his career as a teacher and head of department (English and History) from 1993 to 1995. He also lectured part-time at Unisa's School of Business Leadership.

Development members

There are 2 development seats on the EXCO to provide senior employees with the opportunity to gain experience at an executive level. The incumbents rotate annually and the seats were filled by Jerome Passmore, head: project office and Dumisani Ncukana, head: service support during the 2018 financial year. The development members for the 2019 financial year are: Grant Hardy and Sharon van Horsten.

Our board

Capitec's board of directors is ultimately responsible for the Capitec group in its entirety and instructs and oversees a management and control structure that directs and executes all functions within the group. The Capitec Bank board is identical to that of Capitec.

Our directors have a fiduciary duty to act with care and skill and to exercise their powers and perform their functions as directors in the best interest of the group. Each director has declared that he/she undertakes to:

- act in good faith towards Capitec;
- avoid conflict between his/her other interests and the interests of the bank; and
- place the interest of Capitec and its depositors above all other interests.

Directors are required to disclose interests which may potentially result in a conflict of interest. A declaration of interest is circulated for sign-off by each director at all board meetings. No director may offer a service, product or co-operation agreement to the group on behalf of any organisation in which he or she has a direct or indirect interest at a meeting of the board or its committees. Such service, product or agreement may be offered to management of the company, by the management of the related organisation. If a decision to acquire the service or product, or conclude the agreement is ultimately referred to the board, the concerned director is required to recuse her/himself.

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

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

Capitec board

- Human resources and remuneration committee (REMCO)
- Social and ethics committee
- Audit committee
- Risk and capital management committee (RCMC)
- Directors' affairs committee
- Executive committee (EXCO)

How the board functions

The board remains ultimately responsible for ensuring that its approved strategy is implemented and that the group's purpose is fulfilled. The board also accepts its responsibility to ensure that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board discharges its duty through policies and frameworks supported by 6 board committees.

Comprehensive management reports are submitted to the board for each meeting and relevant reports are distributed to the committees to facilitate in-depth perspectives. These reports include industry matters and external factors that may impact Capitec. The annual board conference addresses pertinent matters and future strategy.

EXCO, together with a number of subcommittees, manage the business through a system of internal controls functioning throughout the group. This promotes the awareness of risk and good governance in every area of the business and instils a culture of ethical behaviour and compliance.

Our board-approved delegation of authority framework consists of charters and policies, with detailed roles and responsibilities as well as authority limits to individuals and committees. After consideration of the delegation of authority policy, the board charter and the terms of the EXCO charter, the board confirmed that it is satisfied that this delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

Board composition and diversity

We believe in inclusivity and equity at board level, subject to merit. The composition of the board is reviewed annually by an evaluation subcommittee of the directors' affairs committee.

• Gender diversity target as per our policy: at least 10%	2018: 16.7%
• Race diversity target as per our policy: 25%	2018: 33.3%

Read more about the diversity in skills and experience of our board members in the profiles on page 74.

We appoint directors according to a policy which prescribes a transparent process. The directors' affairs committee, under leadership of the chairman, presides over board appointments. When specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction and subject to the SARB not objecting to the appointment, the individual is approached and formally appointed. Shareholders have the opportunity at the annual general meeting following the appointment of a new director, to endorse or veto the appointment.

Newly appointed board members are formally inducted through a programme comprising reading, interviews and exposure to bank operations, such as visits to call centres and branches. All board members have an open invitation to attend training presented by the Gordon Institute of Business Science and ad hoc training is presented in-house from time to time. This ensures that board members are kept informed of new legislation and regulations that affect the group. The 2 new directors appointed in 2017 will attend the banking board leadership programme presented by Gibs in April 2018.

The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience and diversity. The board is aware that, after the recategorisation of Ms Mjoli-Mncube and Mr Otto as non-executive directors (referred to below), more independent directors must be appointed to the board. A process is underway to address the current imbalance on the board.

Board performance and independence evaluations

The effectiveness of the board is managed throughout the year and any areas of concern are addressed as they arise. The board is also assessed annually via an internally conducted formal process that deals with individual directors and the board and its various committees.

The board is comfortable with the results of the assessment for the 2018 financial year and is satisfied that it continues to function well.

The independence of non-executive directors and factors that may impair their independence are evaluated annually. During the 2018 evaluation, Ms Mjoli-Mncube and Mr Otto were categorised as non-executive due to the length of their membership of the board and extensive interest in the company. The board is satisfied that the independence of Ms Dlamini and Messrs Makwane, McKenzie and Verster remains unaffected.

The chairman

Our chairman is not independent and is therefore assisted by a lead independent director, whose role is determined by the board charter. According to the charter, the lead independent director provides leadership in situations where the chairman is deemed to have conflicting interests. A board-approved policy specifies how we ensure a balance of power and authority at board level. No one individual has unfettered decision-making powers.

The chief executive officer

Our CEO is appointed by board with the responsibility to lead the EXCO in the formulation and development of the group objectives and implementation of strategies approved by the board. The roles and duties of the chairman and CEO are separated.

The CEO chairs the EXCO, thereby leading the implementation and execution of approved strategy, policy and operational planning. The CEO is accountable and reports to the board on the progress made on the approved business plan at every board meeting.

The REMCO formally evaluates the performance of the CEO against agreed performance measures and targets at least annually. REMCO is responsible for succession planning for the CEO.

Company secretary

Yolande Mouton (MSc) is the company secretary of the Capitec group. The company secretary acts as a conduit between the board and the organisation and is responsible for board administration, liaison with the Companies and Intellectual Property Commission and JSE Limited and corporate governance services to the board. Board members have access to legal and other independent professional expertise when required and at the cost of the group through the company secretary, and the directors' affairs committee has expressed their satisfaction with this arrangement.

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

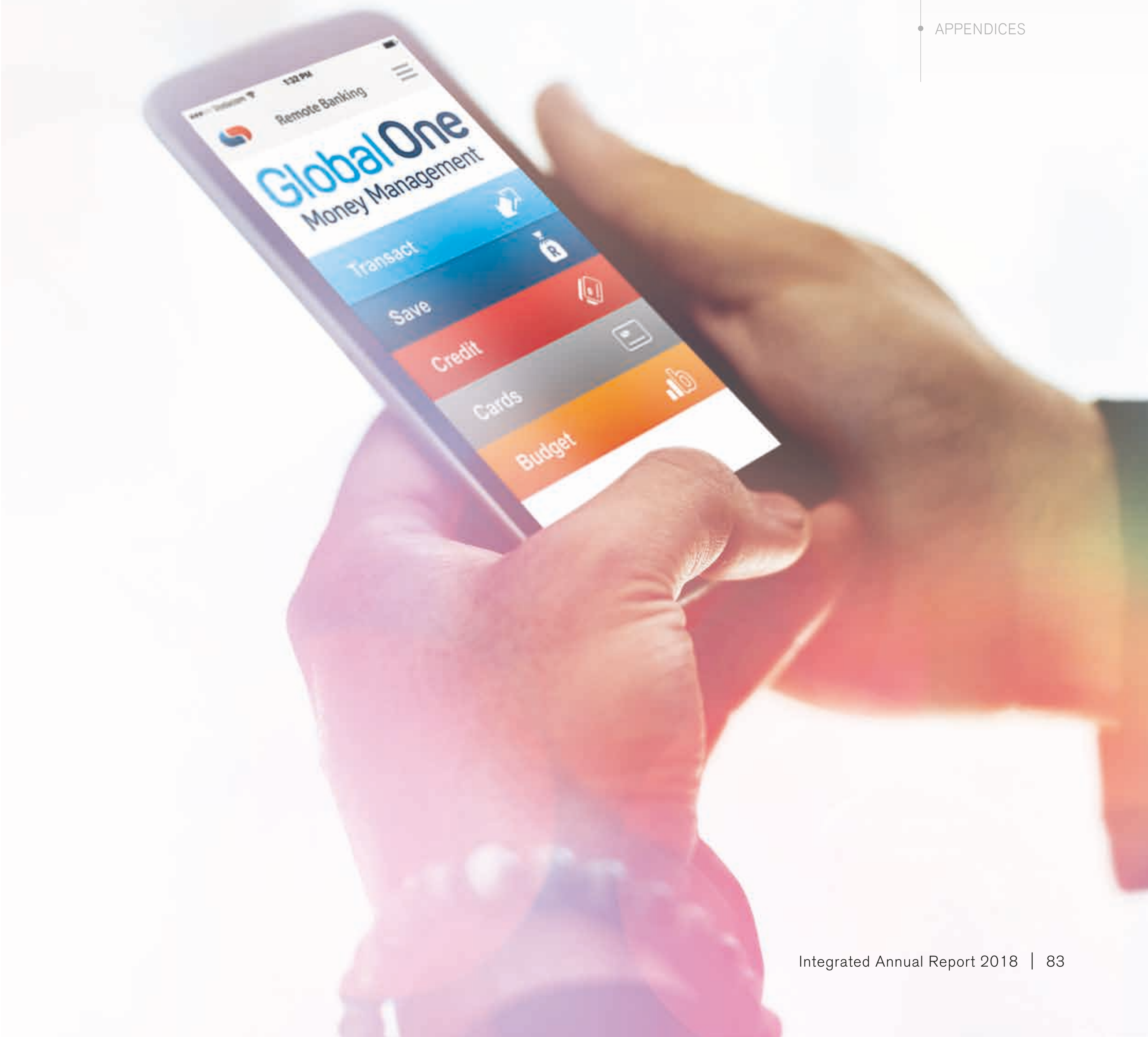
As the company secretary is not a director of any company in the Capitec group and has, to date, maintained a professional relationship with board members giving direction on good governance, as and when required, the committee is satisfied that the company secretary maintains an arm's-length relationship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

Board and committee meeting attendance

The board meets 6 times a year and a quorum comprises a majority of directors of which as least 50% must be non-executive. The board is satisfied with the level of attendance at meetings, which enabled it to fulfil its responsibilities according to its charter.

Committee	Board	Audit committee	Directors' affairs committee	RCMC	REMCO	Social and ethics committee
Number of meetings	6	3	2	4	3	2
R Stassen	6	3[1]	2	4	3	–
L Dlamini[2]	5	2[1]	2	–	–	2
AP du Plessis	5	2[1]	–	3	–	–
GM Fourie	6	3[1]	–	4[1]	3[1]	–
NS Mashiya	6	3[1]	–	4[1]	–	2
MS du Pré Roux	6	3[1]	2	–	3[1]	–
JD McKenzie	5	3	2	4	3	–
K Makwane[3]	5	2[1]	2	–	–	–
NS Mjoli-Mncube	6	3	2	–	–	–
PJ Mouton	6	3[1]	2	4	–	2
CA Otto	6	3[1]	2	4	3	–
JP Verster	6	3	2	4	–	–

[1] *Attendance by invitation*
[2] *Ms Dlamini was appointed to the board on 6 April 2017*
[3] *Mr Makwane was appointed to the board on 6 April 2017*



Board committees

Apart from the directors' affairs committee, which is required in terms of the Banks Act to comprise only non-executive directors, the composition of all committees is reviewed annually by the said committee.

All committees comprise at least 3 members. All board members are welcome to attend committee meetings – although they do not have voting rights in committees of which they are not members. The following committees, comprising directors and executives are in place to deal with specific risks facing the group in a structured manner and in accordance with board-approved charters.

Audit committee

Composition	Purpose	2018 focus areas
Independent non-executive directors • JP Verster (chairman) • K Makwane • JD McKenzie **Management attendees** • AP du Plessis • GM Fourie • NS Mashiya • J-HC de Beer (Compliance and anti-money laundering head) • R Swanepoel (acting internal audit head) **By invitation** All directors Quorum At least 50%, but not less than 2 members	• The committee considers the combined assurance arrangements with focus on internal audit, compliance and external audit. The RCMC monitors risk management in the group. • The committee evaluates the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of their business. • The committee considers the integrity of the annual financial statements and the sustainability matters forming part of the integrated annual report. • The audit committee report, dealing with the requisite disclosures, is included in the annual financial statements. • The audit committee reviewed the annual financial statements for correctness and recommended these for approval by the board. • The committee considers the continuous independence of the external auditors.	• Implementation of IFRS 9 • Combined assurance • IAS 39 impairment ***The audit committee is satisfied that it fulfilled its responsibilities according to its charter for the year.***

Directors' affairs committee

Composition	Purpose	2018 focus areas
• R Stassen (chairman) • All non-executive directors Quorum At least 50%	• Corporate governance • The committee deals with matters relating to the nomination of new directors, according to a board-approved policy. • The committee deals with the evaluation of the performance of the board and its committees – the committee usually delegates the responsibility to a subcommittee consisting of the members of the REMCO. • Succession planning is delegated to the REMCO.	• Robustness of corporate governance structure ***The directors' affairs committee is satisfied that it fulfilled its responsibilities according to its charter for the year.***

Risk and capital management committee (RCMC)

Composition	Purpose	2018 focus areas
Independent non-executive directors • JD McKenzie (chairman) • JP Verster **Non-executive directors** • PJ Mouton • CA Otto • R Stassen **Executive director** • AP du Plessis **Management attendees** • GM Fourie • NS Mashiya • JE Carstens • J-HC de Beer • A Keizer (risk officer) • R Swanepoel Quorum At least 50%, but not less than 2 members	• The committee assists the board in reviewing the risk and capital management systems and processes and the significant risks facing the group. • The chairmen of the audit and risk and capital management committees serve on the respective committees to facilitate increased effectiveness of the respective functions.	• Continued consideration of risks and opportunities if present ***The RCMC is satisfied that it fulfilled its responsibilities according to its charter for the year.***

• Denotes text that forms part of the group's audited annual financial statements.

Human resources and remuneration committee (REMCO)

Composition	Purpose	2018 focus areas
Independent non-executive directors • LA Dlamini (chairperson[1]) • JD McKenzie **Non-executive director** • CA Otto[1] **Management attendees** • GM Fourie • NST Motjuwadi **By invitation** • MS du Pré Roux Quorum At least 50%, but not less than 2 members *[1] CA Otto was the chairman up until 28 February 2018. LA Dlamini took over from him from 1 March 2018.*	• The committee ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act, the regulations thereto, and sound corporate governance practices. • The committee ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders.	• Continuous review of remuneration to ensure fairness and reasonability • Broadening the existing performance accountability and its influence on remuneration • Further progress on transparency, while monitoring developments in best practice recommendations on disclosure • Ongoing employee engagement to drive mutual understanding and ensure continued remuneration and benefit relevance for the employee ***The REMCO is satisfied that it fulfilled its responsibilities according to its charter for the year.***

Social and ethics committee

Composition	Purpose	2018 focus areas
Non-executive director • PJ Mouton (chairman) **Independent non-executive director** • LA Dlamini **Executive director** • NS Mashiya **Management attendees** • A Keizer • NST Motjuwadi Quorum At least 50%, but not less than 2 members	• The committee monitors activities relating to social and economic development, good corporate citizenship and the environment, to promote the collective wellbeing of society, thereby facilitating the sustainable growth of the group. • The committee tracks the impact of the group's activities and service, with specific focus on client and employee relations.	• Transformation ***The social and ethics committee is satisfied that it fulfilled its responsibilities according to its charter for the year.***

Large exposures committee

Composition	Purpose	
• RCMC (refer above) **Management** • JE Carstens • GM Fourie • NS Mashiya Quorum Majority of members Meets as required	• Approval of credit exposures in excess of 10% of bank capital on an ad hoc basis as may be required.	

Executive committee (EXCO)

Composition	Purpose	2018 focus areas
As per pages 76 to 78; and the two annually elected development members. Quorum At least 3 of the following: CEO, CFO, executive: risk management and executive: operations (quorum members) or replacement members as appointed by the EXCO, subject to at least 2 being quorum members	• The committee conducts operational decision-making. • The committee implements board-approved strategic decisions. • The committee conducts ongoing approvals of an administrative nature. Meeting frequency • Meets twice a week with an extended monthly meeting.	• Service experience • People • Efficiency

06 *Risk management*

risk management

The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained.

11

RDARR principles adopted

We adhere to the Basel 3 standards

Information security is based on ISO 27001/2 standards

36%

capital adequacy ratio: a strong capital base to support growth

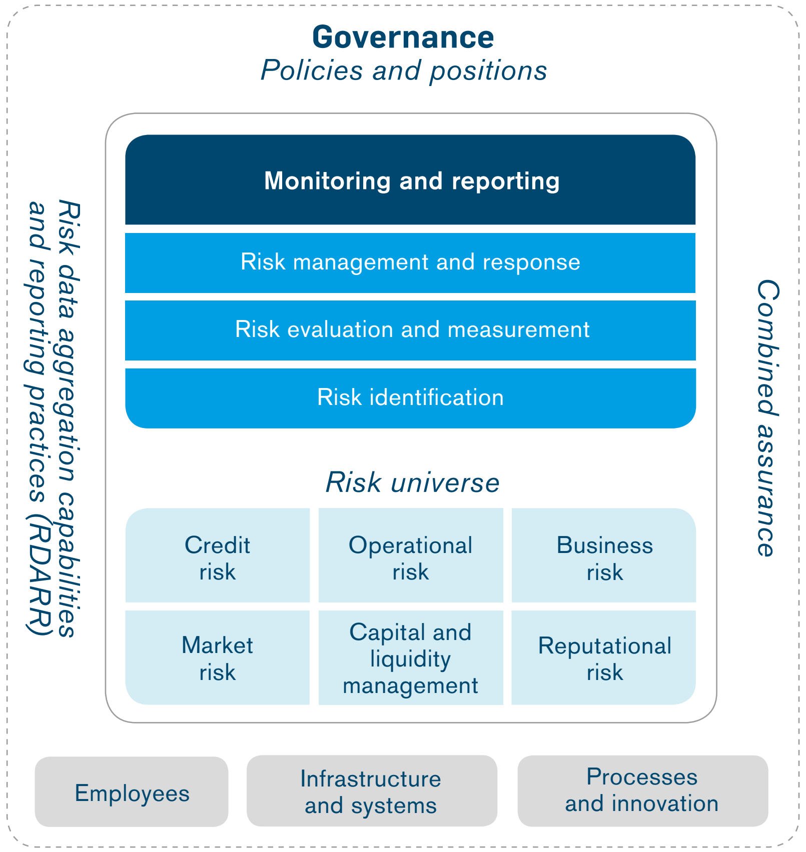
Risk management approach and oversight

Capitec views risk management as a way to ensure that sustainable value is created for stakeholders in a responsible manner and to influence behaviour to best align with the Capitec risk appetite.

Enterprise risk management framework

Our enterprise risk management framework governs risk management and aims to continuously improve our risk culture. This requires an integrated approach in all business areas. The outcomes of effective risk management are higher levels of certainty about potential risks and ways to mitigate these, and an improved ability to achieve our strategic objectives.

The framework defines Capitec's risk management structure and process.

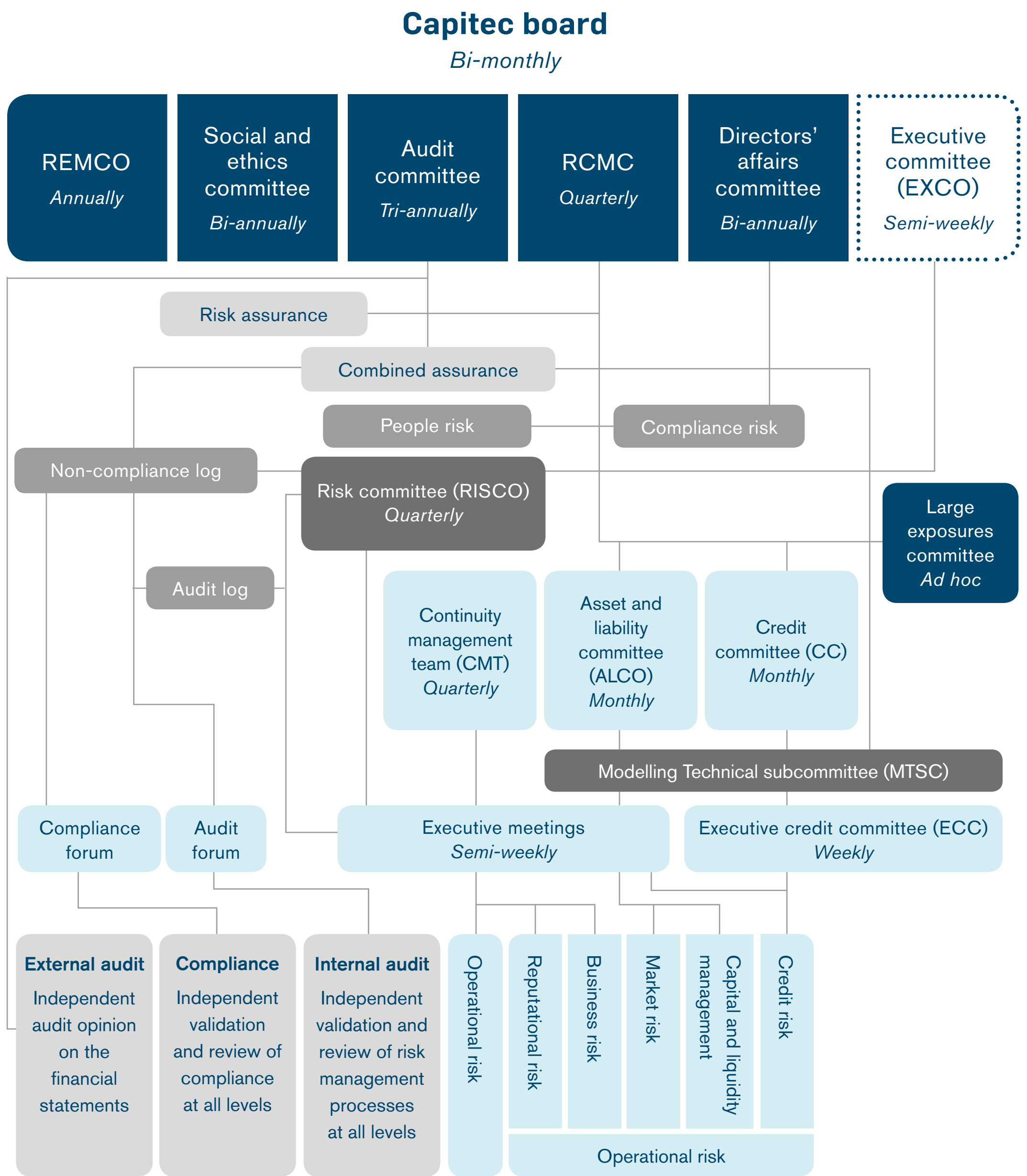


The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board mandated the RCMC to oversee risk management according to a board-approved charter. The RCMC is composed of executive and non-executive directors. The committee, which meets quarterly, also has senior management attendees with representation from risk, credit, compliance and internal audit. This ensures that a consistent risk appetite is shared across management and the board. We believe the composition of the RCMC is important to ensure that proper governance is maintained and that healthy risk discussions are encouraged from a forward-looking perspective while also taking into account past risk events.

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

The board monitors the implementation of the risk strategy, approves the risk appetite and ensures risks are managed within tolerance levels.

The integrated risk management governance structure consists of committees with varying areas of responsibilities as detailed in the following diagram, ensuring that the risk universe is covered.



The board remains ultimately responsible for risk. They set the strategy and provide the governance framework in which risk can be managed.

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

Risk identification	Identified risks are formally documented on our risk registers and have designated risk owners. Mitigation plans are tracked against predetermined timelines and monitored accordingly, with the necessary escalation processes in place. Heads of business carry the primary responsibility for the risks in the group, particularly with respect to identifying and managing risk appropriately. The risk management department facilitates risk self-assessment workshops where appropriate to assist.
Risk evaluation	Risks are evaluated in terms of impact and likelihood if and when materialising. We consider the inherent and residual side of risk. Our board-approved risk matrix allows for consistency in the evaluation of risk. The risk management department supports the business heads by providing independent oversight and monitoring across the group on behalf of the board and relevant committees. Risk management is headed by an executive risk officer who owns and maintains risk frameworks, maintains risk governance structures and manages regulatory relationships regarding risk matters.
Risk reporting	We believe risk reporting should be clear, concise and put management and the board in a position to make informed risk decisions. Because we believe risk should be managed as part of our daily operations, we developed key risk indicators to assess risk against predetermined tolerance levels. Risk information reporting adopted the Basel Committee on Banking Supervision's Principles for effective risk data aggregation capabilities and risk reporting practices (RDARR).

The bank has adopted RDARR, which consists of 11 principles covering 3 domains: governance, aggregation capabilities and reporting practices.

The principles support our efforts to:
- enhance the infrastructure for reporting key information used by the board and senior management to identify, monitor and manage risks;
- improve decision-making processes;
- reduce the probability and severity of losses resulting from risk management weaknesses;
- improve the speed at which information is available and hence decisions can be made; and
- improve the quality of strategic planning and our ability to manage the risk of new products and services.

The board and senior management promote and monitor the efforts of embedding these principles throughout the business. We strive to continuously mature our data governance and risk management practices.

Our risk appetite and tolerance

Our risk appetite is the level of risk we are willing to accept while pursuing our objectives.

*

As expected from a bank, Capitec's highest exposure is in the credit risk environment, where we define the appetite level through our pricing model. We aim to achieve a targeted return on equity (ROE) on all credit products. The pricing model combines the revenue and operational costs for a specific loan product and derives the total credit losses that can be absorbed over the term of the product to achieve our targeted ROE.

Aligned with the bank's overall strategy, it must be clear that as a group, certain operational risk events, such as those arising from employee diversity and discrimination events simply cannot be tolerated. We adopted a zero appetite towards these types of events. For other operational risk events we have a low appetite, which means that the bank will not knowingly expose itself to the risk that these events occur. To determine risk tolerances, we consider outcome measures for our key objectives, such as revenue growth, market share, client satisfaction or earnings per share and consider the range of outcomes above and below the target that are acceptable. The tolerances are measured in the Capitec MOS KPIs.

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

Combined assurance

King IV™ imposes on the audit committee the responsibility for overseeing a combined assurance model. In Capitec both the audit committee and the RCMC oversee the combined assurance model, which includes:
- establishing and analysing the risk environment
- enabling an effective internal control environment;
- supporting the integrity of information used for internal decision-making by management, the board and its committees; and
- supporting the integrity of external reports.

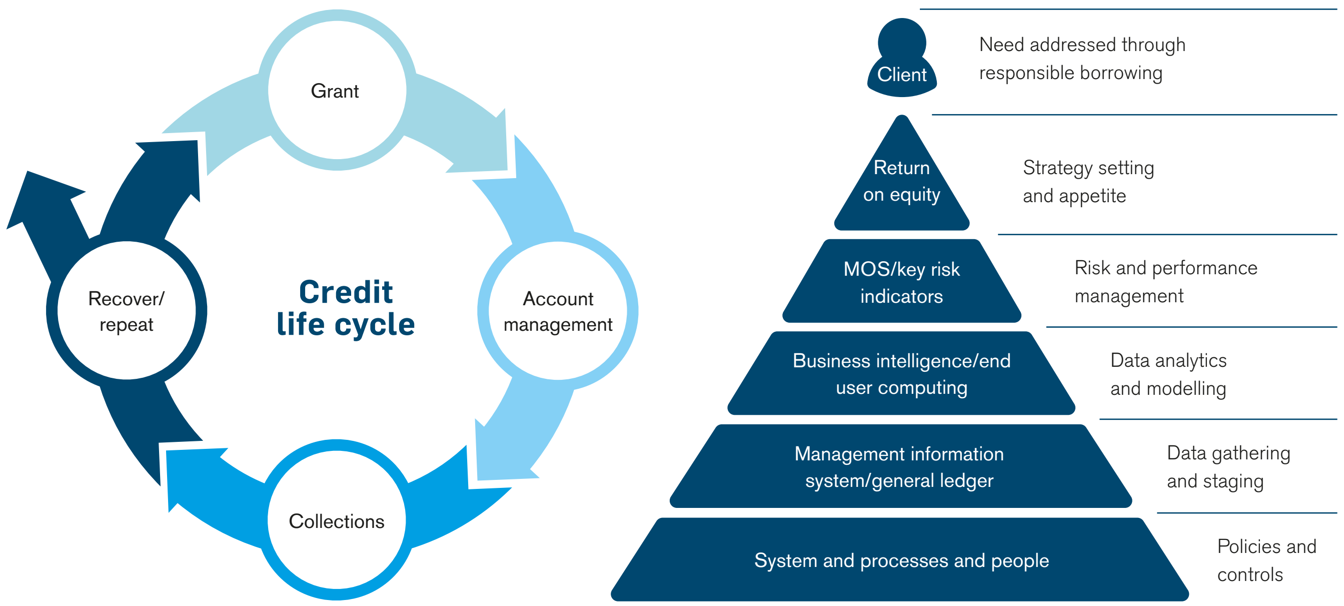
In supporting the board, and audit committee in particular, the internal assurance providers, risk management, compliance and internal audit, are collaborating on combined assurance initiatives to effectively cover the group's significant risks and material matters.

Credit risk

Definition	The risk of loss arising from the failure of a client or counterparty to fulfil its financial obligations. Our credit risk primarily arises from unsecured retail credit lending.
Governance	The RCMC has oversight through its credit subcommittee, which sets credit strategy, approves credit policy and monitors credit risk to be within appetite tolerance, provisions and changes in the operating environment. The executive credit committee (ECC) reports on the credit risk policy monitoring decisions for each of the stages in the credit life cycle. Financial governance is applied through pricing and provisioning models, regulatory reporting and the Internal Capital Adequacy Assessment Process (ICAAP). A modelling technical sub-committee (MTSC) has been established to provide a forum for the technical discussion, coordination and direction in setting modelling standards, methodologies and techniques. Integrated risk management is applied across all stages of the credit life cycle.

Credit risk management decisions are made throughout the credit life cycle with the aim of improving the financial lives of our clients. Various credit management controls such as credit policies, data, models and risk indicators are in place to guide these decisions according to agreed principles and tolerance levels. At each stage, we consider the impact on probability of default, exposure at default, loss given default, pricing, profitability and provisions.

Credit management framework



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

The granting of credit is 1 of the core elements of our business. We offer personalised, unsecured credit at very competitive total cost of credit. As part of the credit granting process, we ensure that our clients understand the costs, their obligations, their rights and the risks of the credit being applied for.

Our credit granting approach evolves as we improve our understanding of clients' needs, behaviours and risk profiles, and as we respond to changes in the economic and regulatory environment. A cautious approach to credit granting resulted in Capitec tightening its credit policy in response to the low growth economic environment that the country has been experiencing. Consequently, a higher level of applications was declined than in the previous year. We have re-engineered our offer to enable a purpose-driven borrower to obtain a much lower interest rate by selecting a shorter term. The combination of these changes resulted in a better performing book and higher average loan sizes.

We have seen healthy growth in our credit card since launching in 2016. A substantial number of new banking and new credit clients have acquired a credit card. The utilisation and performance of the credit card book are within expected ranges.

A sophisticated statistical model that uses internal application and transactional data as well as external data such as credit bureau is employed in the granting of credit. The model is based on 3 aspects: the individual client's repayment behaviour, affordability and sources of income, combined with a life stage rating. Our credit granting model effectively puts the client in control of their own credit decisions. They can determine the amount that suits their needs, monthly instalment that suits their cash flow or an option that gives them the best cost of credit. Client affordability is assessed by considering, among other things, the sustainable income, existing debt repayment obligations and other necessary expenses in line with regulatory requirements. In addition to this, we perform our own affordability assessment in parallel and use the more conservative outcome of the 2. We regularly monitor the performance of the granting model and adapt it dynamically where deemed necessary, for example by augmenting with machine learning techniques. Our latest model has recently been updated to offer clients a better interest rate.

Daily MOS indicators such as application volumes, accept rates, take-up rates and sales as well as monthly insight indicators such as client acquisition, retention and attrition are monitored to ensure that credit risk remains in line with the strategic objective.

Offering sustainable credit products and client rehabilitation strategies play a vital role in fostering long term client relationships and achieving Capitec's financial goals.

We use the regulated non-authenticated early debit order (NAEDO) system to collect instalments from clients. Early stage arrears are managed by a centralised function that uses an arrears segmentation strategy based on a client behaviour score as a risk migration tool. Rescheduling is offered as a rehabilitation mechanism by amending existing credit agreements to arrears clients who have a propensity to rehabilitate and as a proactive mechanism to non-arrears clients in an effort to mitigate credit losses. Various forms of rescheduling are available in order to offer suitable solutions to address the underlying cause of the arrears. A data driven treatment model has been developed to assist call centre agents in offering the optimal arrangement or rescheduling option to a client, based on the client's risk profile, financial need as well as ability to honour the arranged treatment. Apart from these rehabilitation options, the client also has statutory mechanisms, such as debt counselling, available. We have observed a rise in debt counselling, along with a reduction of the average age of the debt in debt counselling, in line with mounting economic pressures. Capitec has enhanced its capacity to manage this occurrence more proactively.

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

*

A payment propensity model is used to determine which clients will be kept for in-house collection vs. which clients should be handed over to an external debt collector (EDC) as outsourced recoveries. Outsourced recoveries are performed by a number of EDCs with different capabilities ranging from high volume call centres to lower volume legal collections. Debt is sold when the expectation of future payments as estimated by an internal valuation methodology, is considered too low.

The performance of the credit book is monitored daily and monthly by MOS indicators such as arrears, instalment collection success, centralised collection activities, treatments and balances rolling into a fully provided state.

We regularly assess the levels of provisions through coverage ratios to ensure we adequately provide for the risk profile of the book. For rescheduled loans, we also follow a conservative approach to provisioning based on validated rehabilitation.

We monitor each service consultant to identify their individual training needs. The need to understand credit risk resulted in the development of a Banking Sector Education and Training Authority (BANKSETA) accredited learnership package. This is the starting point towards a qualification in banking and unsecured lending as a prospective career for current or prospective employees.

We continue to focus on purpose-driven lending as the starting point to credit decisions and aim to offer a full device agnostic digital end-to-end solution for all credit requirements of our market.

Counterparty credit risk

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

*

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

*

Investment credit risk

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

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

Other credit risk

Corporate insurers: We select corporate insurers to insure the loan book against death and retrenchment, and to cover property and casualty insurance needs based on sufficient underwriting capacity and an appropriate reinsurance strategy.

Suppliers: The credit committee assesses and approves prepayment and inventory exposure to suppliers as part of the procurement policy, to limit operational and financial risk.

Read more about counterparty, investment and other credit risks in the audited annual financial statements from page 213.

*

Rating grades and related risk weights

Long-term credit assessment	Aaa to Aa3 %	A1 to A3 %	Baa1 to Baa3 %	Ba1 to B3 %	Below B3 %	Unrated %
Sovereigns	0	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Security firms	20	50	50	100	150	50
Banks: Short-term claims	20	20	20	50	150	20
Security firms: Short-term claims	20	20	20	50	150	20
Corporate entities	20	50	100	150		100

Short-term credit assessment	P-1 %	P-2 %	P-3 %	Other %
Banks and corporate entities	20	50	100	150

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

Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure[1] 28 Feb 2018	28 Feb 2017	Average gross period-end exposure[2][4] 28 Feb 2018	28 Feb 2017	Exposure post risk mitigation[2][3][4] 28 Feb 2018	28 Feb 2017	Risk weights[5] (%)
On balance sheet							
Corporate[6]	**4 339 309**	3 861 160	**3 764 555**	2 134 996	**3 628 931**	1 535 430	100
Sovereign[7]	**11 977 984**	6 020 822	**13 096 689**	7 222 438	**13 089 771**	7 222 438	–
Banks (claims <3 months original maturity)	**9 502 551**	7 326 273	**11 666 113**	7 399 263	**10 242 254**	7 399 263	20
Banks (claims >3 months original maturity)	**5 279 692**	7 134 207	**3 720 150**	8 133 961	**3 720 150**	8 133 961	50
Banks (derivates >3 months Aaa to Aa3)	**–**	106 390	**–**	72 498	**–**	72 498	20
Banks (derivates >3 months A1 to Baa3)	**71 551**	6 594	**15 184**	4 113	**15 184**	4 113	50
Retail personal loans							
with unidentified impairments	**44 083 394**	40 899 057	**43 628 225**	40 697 973	**43 628 225**	40 697 973	75
with identified impairments[8]	**3 862 755**	4 239 093	**2 133 889**	4 437 398	**2 133 889**	4 437 398	100/50
Subtotal	**79 117 236**	69 593 596	**78 024 805**	70 102 640	**76 458 404**	69 503 074	
Off balance sheet							
Corporate guarantees	**–**	–	**–**	–	**–**	–	100
Retail personal loans							
retail guarantees	**–**	–	**–**	–	**–**	–	75
committed undrawn facilities	**–**	–	**–**	–	**–**	–	75
conditionally recoverable commitments[9]	**570 502**	301 704	**796 274**	457 610	**796 274**	457 610	–
Total exposure	**79 687 738**	69 895 300	**78 821 079**	70 560 250	**77 254 678**	69 960 684	

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

(1) *Average gross exposure is calculated using daily balances for the last 6 months.*
(2) *Items represent exposure before the deduction of qualifying impairments on advances.*
(3) *Represents exposure after taking into account any qualifying collateral. Amounts are shown gross of impairments, which are deducted to calculate risk-weighted assets.*
(4) *'Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month 6 of the respective reporting periods. All other items are the balances at the respective month-ends.*
(5) *The risk weightings reflected are the standard risk weightings applied to exposures, as required by the regulations. Risk weights for exposures (other than retail) are determined by mapping the exposures Moody's International grade rating to a risk-weight percentage using the mapping table (refer table above). The risk weightings for retail exposure are specified directly in the banking regulations. A standard risk weight of 75% is applied to performing retail exposures while impaired exposures attract a standard 100% risk weight, net of allowed impairments.*
(6) *95.5% (Feb 2017: 53.8%) of corporate (unrated) aggregate gross period-end exposure relates to investments in money market unit trusts.*
(7) *Sovereign comprises investments in RSA treasury bills and SARB debentures. These exposures are zero risk weighted.*
(8) *An ageing of impaired advances based on arrears status is shown in Note 7 to the financial statements. Per banking regulations, those retail personal loans which have been provided for in excess of 50% of the outstanding balance, are risk weighted at 50%.*
(9) *These commitments are as a result of undrawn credit facility and undrawn credit card amounts. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 48.1% (Feb 2017: 52.1%) is expected to be drawn down within 1 month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.*

Operational risk

Definition	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Governance	The RCMC and audit committee have oversight of operational risks through the RISCO subcommittee. The executive risk officer and his team are responsible for the implementation and maintenance of frameworks and policies and manage internal and external relationships of risk matters.
Objective	We protect the stakeholders of the bank by influencing behaviour to best align with the board's set risk appetite.
More information	Read more in the section on our operating environment from page 32.

Under the direction of the enterprise risk management framework and the risk committee, our aim is to help the group make informed risk decisions. We also believe in a collaborative and cohesive relationship with the rest of the business to encourage transparency, trust and to ensure consistent risk management practices.

Good risk management practices also suggest we should at least annually stand back from our daily risk registers and known issues and revisit the entire risk landscape and its potential impact on the objectives of the bank. This top-down assessment aligns our business plans and focus areas appropriately.

We have recently implemented systems and processes to support a centralised view of all risks in the group. This view is continuously enriched with information from our risk self-assessment workshops, which remain a focus area. This, together with near miss and incident analysis, presents holistic risk identification. Mitigation is shared in the combined risk function collaboration to give unified assurance. Key Risk Indicators are used to monitor assessed risks.

Fraud risk

We use technology to prevent exposure to fraud and to ensure that we are at the forefront of fraud prevention. Our fraud policy outlines what constitutes fraud and corruption. It details the procedures to follow where fraud or corruption is suspected or discovered.

We co-operate with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime, including bribery and corruption charges.

Information technology risk

The persistent pursuit to provide clients with simplified banking drives Capitec to focus on innovative methods of technology application and solutions. We aim to protect client information, to apply controls and compliance consistently, and to develop new controls.

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

IT governance framework

Information technology governance is implemented according to the Capitec IT governance policy. The policy is built on a strong framework that incorporates principles and controls defined in international standards, such as the Control Objectives for Information and Related Technologies (COBIT), Information Security Forum (ISF) Standards of Good Practice, and ISO 25999 and 27001/2.

The framework provides guidelines and structures to ensure that our IT strategy is created, approved, reviewed and implemented to align with the business strategy, with a focus on our clients.

The IT governance framework defines the IT organisational structure and the policies and procedures to facilitate good governance and compliance practices regarding IT. Weekly EXCO meetings and formal IT prioritisation meetings provide platforms to discuss strategic IT matters and initiatives and align priorities.

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

IT compliance

The IT risk manager acts as the compliance champion for the IT department and facilitates frequent assessment of the status of legal and regulatory compliance matters in co-operation with the compliance officer. We track and report on progress on all compliance matters.

Information security management system

The Capitec information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information systems. Our information security management system is based on ISO 27001/2 standards and the best practice principles of the ISF standards of good practice. The information security manager is responsible for information security management.

Cyber security management

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

Information risk

Data drives our business model and operations. Good data practices not only ensure compliance and the safeguarding of our information assets, but also form the foundation of our competitive advantage as a bank.

Capitec operates in a highly regulated industry where data breaches could have a disastrous impact on organisational reputation and sustainability. The RDARR principles, in particular, require a clear organisational strategy around data governance and information risk management.

In the past year we focused on staying abreast of regulatory requirements such as the Protection of Personal Information Act and RDARR, and on increasing Capitec's ability to take informed risks decisions. Particular focus areas include:
- data governance and ownership;
- data architecture and information management;
- data quality management; and
- information security.

Business continuity

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

The business continuity and disaster recovery plan contains procedures to be followed should an extreme event occur. The disaster recovery and evacuation plans were tested successfully during the year. The IT disaster recovery plans are tested continuously.

Compliance

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

The bank has a dedicated compliance function as prescribed by the Banks Act to manage compliance risk. The function comprises 2 sections: compliance and anti-money-laundering. The head of compliance reports to the audit and RCMC committees and submits reports to the directors' affairs committee.

Our compliance policy, which forms part of the compliance framework, compliance manual and compliance programme, defines the ways in which the board and CEO are assisted to ensure we operate with integrity, comply with legal and regulatory requirements, and work according to ethical standards.

Our compliance universe consists of applicable laws and is reviewed annually to ensure that these remain relevant and current, given our different growth initiatives and new products launched.

The compliance function assists with fostering a compliance culture that creates awareness and recognition of the value of compliance risk identification, assessment, management, monitoring and reporting as part of the bank's ongoing activities.

Notable regulators that impact compliance requirements and direct our conduct:
- SARB
- NCR
- JSE Limited
- Financial Intelligence Centre
- Financial Services Board
- Information Regulator

We received no material regulatory penalties, sanctions or fines for contraventions of or non-compliance with statutory obligations.

Read more about the regulatory requirements that affect Capitec in the section on our operating environment from page 32.

Insurance

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

Business risk

Definition	The risk of non-performance against planned strategic objectives, the consequences of inappropriate strategy, or a decline in sales volumes or prices that will negatively impact profitability.
Governance	The RCMC has oversight of business risk through the RISCO, a subcommittee of the RCMC. Business risk is managed operationally by the EXCO.
More information	Read more in the chairman and CEO's report from page 44 and the section on how we measure success on page 19.

Part of how we manage business risk is by monitoring regulatory changes as these can potentially impact business volumes. Changes can include interest rate movements, which affect cost, pricing and the size of loans.

Our risk mitigation strategy includes:

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

Management activities are arranged according to key activities and value generators: transacting, saving, insurance and credit. Strategy and performance reporting on these activities is focused on applying key business drivers:

- Service
- People
- Business optimisation

Business risk resulting from an inappropriate strategy is mitigated by an annual strategy review. EXCO is accountable for developing our strategy and the board considers some for approval. They monitor implementation according to key performance indicators.

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

* Market risk

Definition	The risk of a potential decrease in stakeholders' value due to adverse changes in market prices and rates negatively impacting assets and liabilities.
Governance	Market risk is addressed at least on a monthly basis by the ALCO.
More information	Read more in the CFO's report from page 44 and in the section on how we measure success on page 19.

Market risk generally has a wide impact and is often outside of our control. It includes equity, bond and commodity price changes and fluctuations in the exchange and interest rates. Our exposure to market risk is mainly due to inherent interest rate risk arising on the retail banking activities, which are defined as the "banking book" by Basel.

Interest rate risk

Market-driven interest rates can adversely affect our profitability and the value of the Capitec balance sheet.

Whereas other retail banks operate floating rate mortgage books and have to minimise the impact of rate changes on the value of their equity, we offer fixed interest rates on retail term loans. We have a conservative liquidity approach. These factors result in an inherent interest rate repricing mismatch for Capitec. Currently, the quantum of outstanding floating rate credit card balances is not material.

We operate well within our target range and even if there is a 2% shock on interest rates in either direction, we would experience an impact of less than 1% on the bank's profit.

Fixed interest rate retail loans	The interest charged on all unsecured retail loans is based on fixed interest rates. This protects loan clients from the effect of rising interest rates. They therefore do not have the risk of increasing instalments on their loans.
The impact of the liquidity strategy	The Capitec approach to liquidity is to match long-term loans with long-term funding. However, the longer-term funding can initially be sourced with a floating coupon, contributing to the repricing mismatch. Call deposits are not used to fund long-term loans. These floating rate deposits are matched in a floating rate investment portfolio.
The effect of shareholders' equity	A natural mismatch position arises due to there being more rate-sensitive assets than rate-sensitive liabilities. This mismatch is due primarily to ordinary shareholders' equity, a consequence of our conservative leveraging. Traditionally equity is considered as non-rate-sensitive. Capitec targets a fixed ROE. Given that our principal asset class is unsecured retail lending at fixed rates and given the allocation of a large portion of equity to funding these assets (in line with the philosophy of matching the funding of longer-term assets with long-term funds), part of the mismatch between assets and liabilities due to equity funding, is considered matched.

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

Managing interest rate risk

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

Our appetite for interest rate risk is managed according to set limits applied using balance sheet and earnings measures. We assess the impact of rate changes on the net present value of the retail loan book and related funding, and the potential impact of an open position on current and future profitability.

Regulatory sensitivity analysis of equity – 200 basis point shift	2018 R'000	2018 %	2017 R'000	2017 %
Increase	(699 604)	(3.3)	(645 367)	(3.8)
Decrease	722 962	3.4	662 379	3.9

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

Insurance risk

When loan clients are granted credit for terms 7 months and longer, the group requires the loan client to have credit insurance to cover death, unemployment or inability to earn an income (other than disability), temporary and permanent disability. The loan client has the right to either provide the group with an existing policy to cover this requirement or seek out an insurance policy with another insurer. As an option available to our loan clients, the group in the normal course of business, offers its loan clients the opportunity to enter into credit insurance contracts.

The significant type of insurance contract offered by the group is the credit insurance described above.

The credit insurance contracts offered by the group is to its loan clients is through a cell captive arrangement underwritten by a cell captive insurer. The group is the owner of a cell which holds the credit insurance underwritten by the cell captive insurer. As part of its arrangement with the cell captive insurer, the group has entered into a binder agreement to manage the collection of premiums, payment of claims and the residual net cash being remitted to the provider of the cell captive arrangement.

The cell captive arrangement is considered to have transferred significant insurance risk to the group (see accounting policy 2.15 in the annual financial statements) due to the contractual requirement imposed on the group to maintain the solvency of the cell. To mitigate this insurance risk, the group in consultation with the cell captive insurer elected to reinsure the insurance risk contained within the cell captive with the significant portion being placed with A- (S&P) credit rated insurance companies. This results in the group essentially being the reinsurer of last resort should the reinsurers not honour the reinsurance contract and the group would have to recapitalise the cell should losses be incurred.

In the prior year, the cell captive was fully reinsured, however in the current year, the reinsurance treaty entered into relates only to the death, unemployment and a portion of permanent and temporary disability components of the credit life insurance policies underwritten by the cell captive insurer.

The cell captive insurer is responsible for evaluating the retained insurance risk in terms of statistical and underwriting disciplines as determined in the approved mandate set for the cell captive arrangement. The insurance contract liabilities for the retained insurance risk are disclosed in Note 9 – Net insurance receivables of the annual financial statements.

The main risks to which the group is exposed include:

- mortality and morbidity risks: the risk that actual experience in respect of the rates of mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products;
- contract persistency risk: the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract;
- expense risk: there is a risk that the group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies; and
- business volume risk: the risk that the group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration.

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

Equity risk

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

Currency risk

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

Currency risk has a minimal impact on Capitec's operations as they are all in South Africa. Imported capital equipment and technological support services result in limited exposure to currency fluctuations. However, these transactions are fully hedged by means of forward exchange contracts. There was no foreign currency funding at 28 February 2018.

Hedging market risk

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

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

Any hedges cover the complete exposure on the underlying transaction.

Read more about all aspects of market risk in the audited annual financial statements from page 164.

Capital and liquidity management

Definition	The risk of losses from not having cash to honour commitments on time.
Governance	The ALCO oversees the activities of treasury, which operates in terms of an approved ALM policy. The ALCO assesses capital adequacy on a monthly basis, including a historical and future capital positioning review, and reports quarterly to the RCMC. Capital adequacy and the use of regulatory capital are reported to SARB monthly, in line with the requirements of the Banks Act.
More information	Read more in the CFO report from page 48.

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

Read more about expected changes in the risk weighting of assets and provisions in the CFO report from page 48.

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

*

Capital to manage risk and growth

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

Supply-side risk	Supply-side risk relates to procuring appropriate capital resources at appropriate pricing and times, to keep ahead of any changes in the technical calculation of capital adequacy, to maintain capital buffers at the stipulated requirements of regulators and to meet the expectations of shareholders.
Demand-side risk	Demand-side risk involves monitoring the growth in risk-weighted assets which drives the growth in regulatory and own internal capital requirements. Our internal risk management function addresses the demand-side risk, which encompasses risks that negatively impact earnings and capital.

Capitec's principles when managing capital:

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

The 2 principles above counterbalance each other by aiming to maximise returns for shareholders, but not at the expense of other stakeholders. This approach prevents the adoption of high-risk/high-reward strategies, and safeguards long-term sustainability while maintaining satisfactory returns for all stakeholders. Implicit in this approach is compliance with the prudential requirements of the Banks Act and maintaining a strong capital base to support the development and growth of the business.

Internal Capital Adequacy Assessment Process

The ICAAP addresses the management of capital and solvency risk and risks arising from the pro-cyclicality of business operations through the economic cycle. It is an ongoing process and drives all capital management decisions.

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

Functions and processes of the ICAAP include:

- determining capital sufficiency through a review of the historical and future capital positioning:
  - The ICAAP reviews the historical and future capital positioning from a regulatory, shareholders' and an internal capital perspective;
- forecasting capital supply requirements, including stressing the budget and/or forecast to determine the sufficient capital requirement in a downturn of the economic cycle;
- allowing the regulator to assess the bank's capital planning strategy;
- managing the bank's approach to raising capital that is required to underwrite the risks of the business:
  - The bank aims to raise capital when conditions are conducive and the sustainability, reputation and price optimisation benefits offset any issuing cost; and
- planning ROE as an input of investment decisions and the credit granting model.

Basel 3

Basel 3 sets the minimum standards required to comply with the longer-term prudential liquidity ratio. We calculate our regulatory capital requirement for credit and operational risk by using a percentage applied to the risk-weighted assets of the business. Various methods are used to calculate risk weights in terms of the Banks Act. Capitec's calculations of risk-weighted assets for credit and equity risks in the banking book are governed by the application of the standardised approach, and our calculation of operational risk is governed by the alternative standardised approach (ASA).

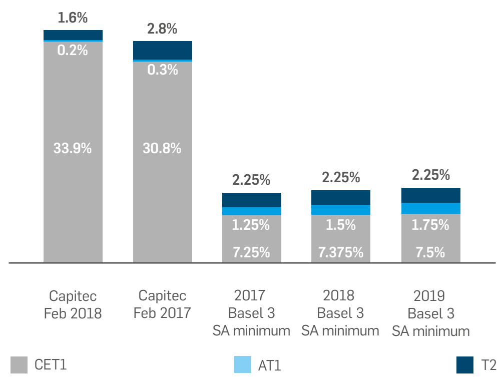
Capitec operates a mono-line banking business through a portfolio of retail banking assets. All other ancillary assets exist to support this business.

The impact of Basel 3 on capital adequacy measurement:

Loss absorbency	Basel 3 loss absorbency rules require AT1 and T2 capital instruments to have a clause in the agreement that enables the regulator to convert them to ordinary shares or write them down in the event of the resolution of the financial institution (a bailout by public institutions). The clause provides the regulator with alternate legal options in the event that a bank crisis must be resolved. All capital that does not meet the new loss absorbency requirements will be phased out over a period of 10 years, with subordinated debt being phased out at the earlier of 10 years or based on actual maturity, where applicable. An overall ceiling limit that reduces by 10% per year was set on 1 January 2013, based on the outstanding capital value of non-loss absorbent AT1 and T2 instruments at the time.
Subsidiary third-party capital	Basel 3 limits the contribution of preference share capital and subordinated debt issued by subsidiaries, in the group capital adequacy ratio. This consolidation deduction is being phased in at 20% per year from 1 January 2013. This limitation aims to encourage the issue of capital by holding companies, rather than by subsidiaries.
Leverage ratio	The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. Capitec had a calculated regulatory leverage ratio of 5 times CET1 capital at the end of the financial year (2017: 5 times CET1). The maximum allowed leverage in South Africa is 25 times CET1 capital.

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

CAPITAL ADEQUACY BY TIER



- **CET1**: Common Equity Tier 1 capital: ordinary share capital and reserves after Basel deductions.
- **AT1**: Additional Tier 1 capital: Capitec's perpetual preference shares qualify as entry-level AT1 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards.
- **T2**: Tier 2 capital: Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary as the interest cost is offset against revenue. This debt is regarded as third-party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the financial year.

- Globally, the Basel 3 minimum capital adequacy percentage is 8%.
- The 2018 Basel 3 South African minimum includes the South African country buffer of 1.25% (2017: 1.50%; 2019: 1.0%). The level of this buffer is at the discretion of the SARB and is subject to periodic review.
- The 2019 Basel 3 South African minimum includes the capital conservation buffer of 2.5% which phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.
- Excluded from the South African minimum are the Basel 3:
  - Bank-specific buffers – Bank-specific buffers include the Individual Capital Requirement (ICR) and Domestic Systematically Important Bank (D-SIB) buffer. In terms of the Banks Act Regulations, banks may not disclose their ICR requirement and D-SIB status. Any D-SIB requirement will be phased in over 4 years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis cannot be more than 3.5%.
  - A countercyclical buffer that can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis, and only when credit growth exceeds real economic growth. The implementation period commenced in January 2016 with the rate of 0%.
  - Haircuts to be applied against a deemed surplus attributable to minority and third-party capital issued by subsidiaries, which began phasing in from 2013 at 20% per year.

Restrictions on the transfer of regulatory capital

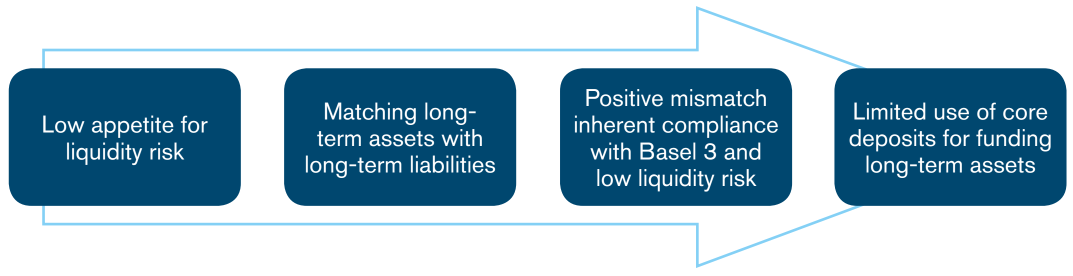
Given Capitec's simple structure and the fact that all the operations are in South Africa, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act. Subordinated debt issued by Capitec Bank is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

*

Liquidity risk

We mitigate liquidity risk by ensuring Capitec has access to sufficient or acceptable cash and cash equivalents to fund increases in assets and meet our obligations as they become due, without incurring unacceptable losses. We adhere to more stringent internal liquidity measurements than required by Basel 3.

Liquidity risk management strategy



For cash planning purposes, we use the contractual mismatch and not the behaviour mismatch.

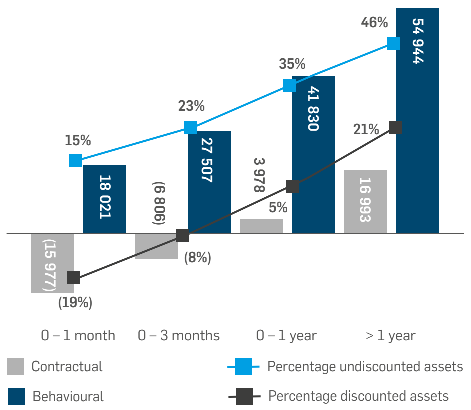
Contractual and behavioural liquidity mismatches

Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 91% (2017: 92%) of these deposits are reflected as stable based on 1 standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions.

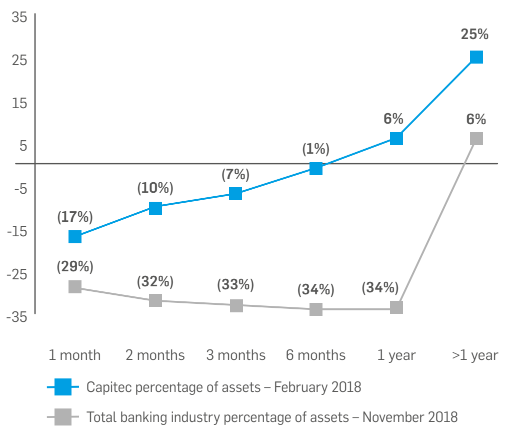
Capitec complied with all regulatory liquidity capital requirements during the current and prior year.

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

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES (R'm)



INDUSTRY COMPARISON – CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES (%)



The Liquidity Coverage Ratio (LCR)

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

	2018	2017	2016
LCR (%)	**1 878**	1 152	1 040
High-quality liquid assets (R'm)	**18 056**	9 266	6 671
Net outflow (R'm)	**962**	804	641

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

A ratio of 100% or more represents compliance in terms of Basel 3 requirements. The requirement to comply is being phased in and a ratio of 90% is required from 1 January 2018.

The Net Stable Funding Ratio (NSFR)

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

	2018	2017	2016
NSFR (%)	**206**	187	145
Required stable funding (R'm)	**37 205**	35 337	34 406
Available stable funding (R'm)	**76 621**	66 187	49 968

The NSFR is calculated as per the SARB rules. Capitec's conservative approach to liquidity management has resulted in compliance with these 3 Basel ratios on a level that is consistently higher than required.

Read more about capital and liquidity management in the CFO report from page 48 and in the audited annual financial statements from page 164.

Reputational risk

Definition	The current or prospective risk to earnings and capital arising from an adverse perception of the image of Capitec on the part of clients, counterparties, investors, employees or regulators.
Governance	Reputational risk is managed directly on an executive management level.
More information	Read more in the governance report from page 70.

Reputational risk is managed on an ongoing basis through a policy framework that details expected behaviour of the business and employees. It guides us on the monitoring of employee behaviour and specific client responses as well as to society in general. This includes precise and transparent reporting through our integrated annual report, annual financial statements and through other public statements. Our risk mitigation strategy includes:

- a centralised policy on media;
- an escalation process for complaints; and
- clear relationships with stakeholders

We actively manage the results of a reputational incident. A security incident and event monitoring solution is used to proactively monitor intelligence to identify and respond to incidents, including cyber-attacks. Our social media monitoring tool tracks all posts related to Capitec. Various software, processes and procedures were implemented to ensure ethical and responsible use of technology and information, thereby protecting our reputation.

Stress testing and contingency planning

Capitec's stress-testing programme assists the board and management in understanding the resilience of the business model. Stress testing is conducted for credit, liquidity, interest rate and business risk, as well as for capital adequacy. Stress testing plays a key role in changes to credit granting rules and loan pricing. We conduct sensitivity and scenario analyses.

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

Contingency planning

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

Liquidity recovery plan

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

Capital recovery plan

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

07 *Our employees*

our employees

We employ people where jobs are most needed: among young people and in areas where the real unemployment rate is higher than the national average.

We hire for potential and train for competence

67%

of employees are 35 years and under

83%

of current employees joined within the last 6 years

Our employees

Our business relies on employees who are able to deliver on our strategic objectives by upholding our values and working according to the Capitec Way.

We invest in our employees from the moment they join and throughout their employment with Capitec. We emphasise diversity and recruitment from communities in which we operate. We apply our fundamentals in the way we appoint, reward, develop and apply policies with our employees.

48 497
learning interventions

62%
female employees

14.3%
employee turnover over the 2017 calendar year
(20.2% average financial industry turnover over the same period)

93%
employees from designated groups

41 780
completed distance learning initiatives

199
promotions to management level

3 766
employees attended courses

1 454
internal promotions

Employment challenges in our operating environment

South Africa's unemployment rate was at 26.7% on Q4 2017 according to Statistics South Africa. The youth unemployment rate is at 51.1%.

As an employer, we help improve South Africa's employment situation in the following ways:

- Creating new job opportunities
- Focusing our recruitment on young people who need to acquire work experience and skills
- Providing training and development for employees younger than 25
- Ensuring our career options and reward strategies are aligned to what employees value

Within this context, Capitec experiences specific employee challenges, including:

- continuously attracting scarce skills;
- external financial stresses on employees in the increasingly challenging economic environment;
- remaining relevant when competing for and signing on sought-after talent; and
- providing and maturing leadership and management skills.

Our employee profile

Of the 13 333 employees in employment at the end of the reporting year, 76% are in positions within our 826 branches, where we prioritise employing matriculants from surrounding communities. We appoint people for their potential – we take on the responsibility of providing appropriate learning and development opportunities for all our people. This approach means that we are creating new jobs where they are most needed: for young people and in areas where the real unemployment rate is higher than the national average. We also drive a branch employee profile that is aligned to the local demographic of each branch. This supports our commitment to employment equity and diversity in our workforce profile.

Employment equity

While continually striving to increase the diversity of our people, we also place special focus on ensuring a fair and equitable work environment. Read more about Capitec's B-BBEE on page 152.

Diversity at management level remains a challenge, exacerbated by aspects particular to these positions, such as their job location, scarcity of specialist skills required, and low turnover. Strategies to address challenges in diversification of our employee profile are integrated into the people initiatives and highlighted in the relevant sections below. We track our progress through the following indicators:

93% of permanent employees are from designated groups.

66% of our graduate bursars are from designated groups and 34% are female.

100% of our graduate development programme participants are from designated groups and 67% are female.

98% of participants in BANKSETA learnerships were from designated groups and 66% are female.

79% of our management learning participants are from designated groups and 51% are female.

82% of internal bursaries for tertiary studies were awarded to designated groups and 46% are female.

Diversity profile[1]

	Male				Female				Foreign nationals		
Occupational levels	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Total
Top management	2	0	0	8	0	0	0	0	0	0	10
Senior management	4	4	2	95	0	1	0	14	3	0	123
Professionally qualified and experienced specialists and mid-management	49	72	24	308	45	46	12	140	12	1	709
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	850	394	92	313	2 043	633	110	265	6	8	4 714
Semi-skilled and discretionary decision-making	1 928	530	92	162	3 549	958	125	195	2	6	7 547
Unskilled and defined decision-making	148	6	1	0	118	6	0	1	0	0	280
Total permanent	**2 981**	**1 006**	**211**	**886**	**5 755**	**1 644**	**247**	**615**	**23**	**15**	**13 383**
Temporary employees	4	4	1	4	3	6	0	7	1	0	30
Grand total	**2 985**	**1 010**	**212**	**890**	**5 758**	**1 650**	**247**	**622**	**24**	**15**	**13 413**

[1] *Data as per Equity Report submitted to the Department of Labour for the period December 2016 to November 2017, as per the department's statutory requirements.*

Talent acquisition

As a rapidly growing business, we need to attract employees to contribute the appropriate skills, diversity, experience and values required by our business model and ambitions.

In the past year, for example, 2 200 employees were appointed to new or vacant positions of which 9% of the positions required information technology skills. Certain IT skills have become highly sought-after due to Capitec's strategic and competitive positioning. Our Stellenbosch head office location and limited pools of equity candidates present further challenges. As we expand, we adapt our sourcing and acquisition approach to the required skills segments in the market to reach, engage and sell our opportunities to these sought-after candidates.

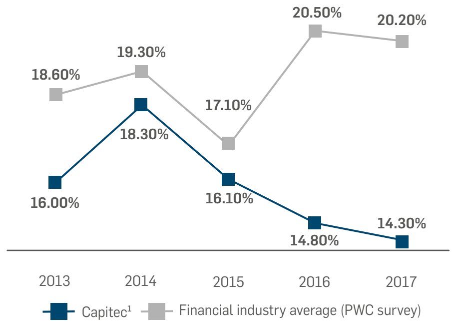
We deploy job-specific sourcing and selection strategies that best suit the nature of the talent we seek for each position, as opposed to taking a single channel or blanket approach. In large areas of the business, including the entry-level, this translates to hiring for potential and training for competence.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

With lower expected levels of new branches opening, we are focusing more on efficiencies within branches. This requires a different mix of skills and experience, and informs our aim to appoint for an evolving bank of the future. Our recruitment process includes a holistic assessment of candidates to determine whether the person is a fit in terms of our service model and values.

Talent retention

Healthy retention of talent is important to our business and our employees.

CAPITEC EMPLOYEE TURNOVER RATE PER CALENDAR YEAR VERSUS FINANCIAL INDUSTRY AVERAGE (%)



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

As much as employees want to develop and mature their talent in the job market, the employer must ensure the optimal return on investment in talent. The retention of critical skill is a priority. We manage this talent retention through robust talent metric tracking and diagnostics and performance review discussions. Combined with the analysis of employee data, we predict and manage succession needs, identify development opportunities and mitigate human capital risks.

Two major retention challenges are: our uniquely young employee profile and the high mobility of suitable employment equity candidates in the general market. We are addressing this by offering more internal development and career path opportunities while expanding the pool of available candidates through investing in graduate development and learnerships. We also employ our flat hierarchy structure to create exposure opportunities that other organisations cannot offer and this is often cited by employees as a meaningful retention factor.

Succession planning is a challenging aspect of retention in a business environment in which there are low levels of retirement and turnover in senior positions. We are developing key performance indicators relating to succession, especially for leadership positions. Succession candidates were identified and will be assessed in terms of potential and technical skills. Once these steps are complete, we plan to create structured opportunities for exposure and integration. Specific senior positions were earmarked for potential equity appointments.

We track employee turnover in comparison with the financial services industry average, as supplied by PricewaterhouseCoopers Inc (PwC) in their Salary and Wage Movement Survey results. Although we consider this PwC figure as our upper limit, we aim to continuously improve our relative rate.

The adjacent graph illustrates the past 5 calendar years' average turnover for the financial industry compared to that of Capitec over the same period. This shows that Capitec's employee turnover is consistently lower than that of the financial industry over the past 6 years. Capitec's employee tenure profile reflects a rapidly growing business.

Tenure (in years)	2018	2017
≤ 3	**61**	65
4 – 6	**22**	22
7 – 9	**10**	8
10 – 12	**4**	3
13 – 15	**2**	1
16 – 22	**1**	1

Talent development

Talent development is a team effort between human resources and line management.

The design and delivery phases of learning programmes involve senior management to ensure that programmes meet business objectives.

All learning is centralised and done in-house under direction of subject matter experts to ensure we meet our service objectives and fundamentals in terms of new products, services and legislative requirements. This allows us to adapt talent development in response to changing client needs and creates closer alignment between learning design and delivery functions.

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

Formal learning interventions measured

	Number of employees attending courses		
	2018	2017	2016
Induction/onboarding	**1 849**	3 632	3 157
Functional/technical	**3 877**	3 607	1 883
Management and leadership	**793**	2 016	1 661
Compliance	**198**	296	240

	Number of completed distance learning courses		
	2018	2017	2016
Induction/onboarding	**7 329**	10 291	6 129
Functional/technical	**16 368**	17 914	11 284
Management and leadership	**3 243**	4 168	2 931
Compliance	**14 840**	13 283	11 316

Notable changes in the formal learning initiatives measured over the reporting year:

- Moving some of the formal management and leadership courses to a purposefully informal leadership campaign
- Moving some of the compliance training from courses to more frequent distance learning
- Reduction in courses attended and distance learning completed due to efficiencies developed in the new onboarding programme
- A general growth in functional/technical learning both formally and informally delivered

A new employee onboarding programme was designed to accommodate the high number of new employees. We aim to provide a quick and thorough understanding of why and how we do things. The model is suitable for different types of positions.

Our distance learning capability ensures that we reach all employees. We conduct distance learning through e-learning, assessments, system simulations, performance support tools, videos and team learning sessions.

Leadership development remains a core focus area. It enables us to create a learning organisation and to successfully implement the Capitec Way. Read more about the Capitec Way on page 10.

Leadership development was enhanced by introducing new technology, such as simulations as part of the learning experience. In addition to formal development, we started an initiative to improve the cohesiveness of leadership teams. This is supported by an informal leadership campaign to stimulate conversations on inspiring, empowering and developing people.

We continued to focus on informal learning. This creates a learning culture that empowers employees to take ownership of their own development.

Successful learning initiatives included the implementation of business projects and client-centric programmes to improve our understanding of our clients. We have implemented a number of accredited learnership offerings.

Priorities for the next year include the following:

- To continue with our journey to turn Capitec into a learning organisation, focusing on the motivation to learn, line manager support and enabling technologies
- To increase learnership offerings to enrich employees' competence and levels of engagement
- To further enhance client service levels through a focus on product and process knowledge
- To develop leaders to inspire, empower and develop our people and build a positive Capitec culture

Talent management

Our employees have clear performance, development and career goals which help us engage on matters that create value for them and for Capitec. Talent diagnostic and review discussions, combined with the analysis of people data, succession needs, development opportunities and potential risks, provide input for future decisions and planning.

Our talent management approach includes the following elements:

- A business-driven and dynamic performance management system that optimises group and individual performance, and assists in identifying talent and development opportunities
- A graduate bursary scheme supports long-term talent pipelines in IT, finance, credit and business development. The number of external bursars has grown to 44 during the past financial year and 10 of the current external bursars joined Capitec in early 2018
- A graduate development programme supports the diversification of our management. There are currently 7 graduates in the programme, with another 9 joining Capitec from February 2018, bringing the total graduates in the programme since inception to 16
- Talent diagnostic and review sessions indicate succession needs, development opportunities and risks to be actioned

Performance management

Capitec's performance management practices are well established and support our continuous improvement focus.

Our performance management approach includes:

- continually developing our MOS which enables us to track variances in performance;
- individual employee performance agreements that form the basis of regular review conversations;
- bi-annual performance assessments;
- individual performance development plans; and
- bi-annual group reviews.

The MOS links company-wide strategic initiatives and key performance indicators to divisional goals and measures, which in turn cascade down through every level to all employees. MOS is a reporting channel that provides a weekly and monthly view, while integrating personal performance measures to align the entire group.

Employee engagement

We changed our human resource model to a partnership approach to simplify our employee processes, provide improved accessibility to employee services and enhance cross-business communication.

Human resources had a strong specialist focus in the past. To improve the execution of the people objectives of the business, we now have dedicated human resource partners per business unit who liaise with line managers as a single point of entry. They act as intermediaries between line managers and specialists when necessary. Line managers remain responsible for the majority of people practices consistent with our open culture and flat structure. Line managers are supported in shouldering this responsibility through leadership development initiatives. The new model takes the full employee value chain into account.

Employees engage and develop their talent when there is a healthy relationship between line managers and their direct reports. Good working relationships ensure that both parties take responsibility for their actions and performance.

Our employee relations approach includes:
- proactively encouraging 2-way communication across all levels;
- employee-related policies, including (but not limited to) disciplinary, grievance and sexual harassment policies;
- communicating these policies to employees to provide clarity and guidance; and
- continuous monitoring to ensure compliance with applicable legislation.

We ensure that employees experience transparency and fairness in their engagement with the business. We respect confidentiality and are open about processes and requirements. No working hours were lost due to industrial action.

We ensure similar employee experiences across all branches – in the same way that clients enjoy a single product and a consistent service experience. An example of this culture is how we put employees in control of their own earnings. They are guided on package structuring, but have options and can adapt these to their unique circumstances.

We offer a wide range of employee assistance programmes, including:
- employee wellness programme (also extended to families);
- risk benefits (life, capital, and temporary disability cover);
- funeral cover;
- medical aid and health insurance;
- gap cover;
- retirement planning;
- free remote banking; and
- discounts on loan interest.

08 Remuneration report

remuneration report

Our remuneration philosophy originates from our stewardship of stakeholder interests.

99%+

votes in favour of our remuneration policy at both the 2016 and 2017 AGM

3

non-executive directors form the REMCO of which 2 are independent

Total remuneration is externally benchmarked

Compared to market, key management's short-term incentive is a smaller part of total remuneration

Part 1: Background statement

Our remuneration report comprises 3 parts. Part 1 consists of a background statement in the form of a letter from the human resources and remuneration committee (REMCO) chairman, reporting on factors that influenced the remuneration policy, and forward-looking approaches. Part 2 contains the forward-looking remuneration policy. Part 3 illustrates the implementation of the remuneration policy over the financial year.

Letter from the REMCO chairman

Capitec grew from strength to strength over the year, as evidenced by the key performance indicators set out on pages 2 and 3. This is further discussed in the chairman and CEO's report on pages 44 to 47. Our leadership team successfully executed our strategic priorities for the year. The REMCO is satisfied with the implementation of the remuneration policy in the year.

We did not make any material changes to our remuneration policy in 2018, as we reviewed and amended the policy in 2016. We continually monitor developments in regulation, best practice and related changes in the market. Input from stakeholders, including independent external remuneration consultants, serves to ensure that our remuneration policy remains suited to a continually changing environment.

The following sets out our overarching remuneration philosophy, business drivers and pay mix which are the backdrop to the rest of the report.

Our remuneration philosophy

Our remuneration philosophy originates from our stewardship of stakeholder interests. We develop strategies that best serve stakeholder interests through sustainable growth. This is linked to remuneration based on the successful implementation of these strategies, which ensures performance-aligned pay.

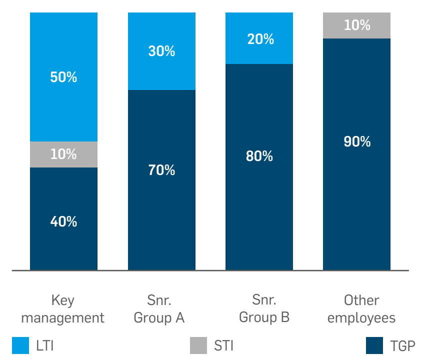
This philosophy is integrated across all employee levels to ensure we only reward actions that advance stakeholder interests. We take care to remain relevant in the market and to compete effectively for critical talent.

The preceding chapters on our operating environment (page 32) and leadership review (page 42) describe in detail the internal and external factors that influenced company performance. Regardless of our continued sound financial results, affordability remains entrenched in our culture. It underpins the sustainability of our relationships with our clients and employees. With this in mind, we drive innovation, continuous improvement and internal talent development to grow income, produce efficiencies and realise our people's potential. This, in turn, helps us to manage our salary bill while remaining competitive in acquiring and retaining the right talent.

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

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

The pay mix, illustrated with all proportions assuming on-target performance:



To ensure key management's pay mix aligns with their long-term focus, a large proportion of the package is delivered in LTI, and STI forms a small proportion of TR. Key management LTIs are subject to personal performance criteria at grant and company performance criteria at vesting.

LTIs are awarded to senior management subject to annual company performance (year-on-year growth in headline earnings per share (HEPS)) being on or above target, and personal performance being satisfactory. Awards are settled in 3 cash tranches spread equally over 3 years.

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

Fair and responsible remuneration

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

- Increasing engagement with employees on the relevance of the benefits and the employee value proposition
- Continued support of the credit health and general financial wellness of employees through education and credit rehabilitation in partnership with a specialist service provider

Feedback from stakeholders on financial year 2017

Shareholder engagement is a crucial part of our stakeholder engagement. Therefore, the REMCO charter specifies we should adequately disclose information to stakeholders to "facilitate constructive engagement with all relevant stakeholders, including shareholders". The REMCO is pleased that in 2016 and 2017 the remuneration report received over 99% of votes in favour. We received no specific feedback during the year, however, the REMCO will continue to engage as appropriate.

Forward-looking approach

In line with our charter, the REMCO continuously evaluates the remuneration policy against best practice and feedback received from stakeholders. The REMCO and management review employee remuneration and benefits continuously, taking into account, among other things, fairness and reasonability, and key management remuneration in the context of overall employee remuneration. This involves being sensitive to the need for corporates to address unfair income disparities and employees' socio-economic challenges. We progressively evolve our disclosure to ensure that it is appropriately transparent and accessible, and in line with best practice.

During the 2019 financial year, in addition to the above, the REMCO and management will focus on the following:

Remuneration aspect	Forward looking approach for the 2019 financial year
Drive employees' sense of ownership at all levels	During our continual review of the design and implementation of incentive schemes, we will give special attention to ensuring such schemes support employees' sense of ownership to drive outcomes that are desirable for all legitimate stakeholders.
Key and senior management succession plans	We will place renewed focus on supporting key and senior management succession plans through the way we manage remuneration.

At the 2018 annual general meeting (AGM), shareholders can vote on remuneration. In line with the JSE Listings Requirements, there will be 2 separate votes on the remuneration policy (Part 2) and its implementation (Part 3).

We believe the Capitec remuneration policy supports the long-term business strategy of the company and we look forward to receiving our stakeholders' support.

Chris Otto
Chairman: REMCO

Part 2: Remuneration philosophy and policy

The remuneration policy, governed by the REMCO, promotes the achievement of company strategic objectives and risk management to foster enduring value creation for stakeholders.

REMCO

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

The REMCO's mandate is to ensure that we establish and observe remuneration policies and practices that:

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

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

The REMCO consists of 3 non-executive directors, 2 of whom are independent. The members of the committee are:

- CA Otto (chairman)
- JD McKenzie
- R Stassen

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

Composition of REMCO as at 28 February 2018

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

Although the REMCO meets formally once a year, the topics are discussed on less formal occasions leading up to the formal meeting.

Key activities of the REMCO during financial year 2018

- Disclosure in terms of Regulation 43 of the Banks Act contained in this integrated annual report
- As tasked by the board through the REMCO charter, confirmed that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in Regulation 39(16)(a) of the Banks Act, King IV™, and take into account shareholder feedback
- Monitored remuneration practices and adherence to the remuneration policy, having met formally once and informally on an ad hoc basis, as deemed necessary
- Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust
- Evaluated and approved all annual increases for Capitec employees, including those relating to directors: proposed non-executive directors' fees to the board for recommendation to the shareholders for consideration at the AGM
- Reviewed organisation-wide remuneration policies in line with best practice and governance standards on an annual basis, including key management bonuses and incentive schemes
- As required by Basel and King IV™, annually consider whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking
- The REMCO charter incorporates the Regulations to the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, align with shareholder expectation and remain within a required risk framework. It is satisfied that these requirements are met.

Stakeholder engagement

As set out in Part 1, the remuneration policy (Part 2) and the implementation report (Part 3) will be subject to separate votes at the AGM. In the event that 25% or more of the shareholders vote against either or both, the REMCO will ensure that:

- such result is communicated with a SENS announcement;
- due shareholder engagement processes take place, including REMCO representation at shareholder engagement sessions; and
- in the following year's remuneration report, we provide details on the engagement and steps taken to address legitimate and reasonable objections and concerns.

General remuneration principles

The following remuneration principles support our remuneration philosophy (as explained in Part 1, from page 126).

Considering performance; determining increases

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

- Performance of the individual, team and company
- Competence
- Forecast profitability
- Economic factors, including the consumer price index (CPI).

Capitec continuously monitors the competitiveness of employees' TR against the market through external benchmarking.

Organisation-wide remuneration approach and the wage gap

Capitec continuously reviews organisation-wide remuneration for fairness and reasonability. Next year we will emphasise:

- Continuing to ensure that equal pay is provided for work of equal value so that there are no income disparities based on gender, race, or any other unacceptable grounds of discrimination. This includes regularly conducting job evaluations and benchmarking
- Driving employee awareness and take-up of benefits and training to realise more value for employees. Special attention will be given to lower levels, where there are challenges in terms of exposure and understanding how benefits improve employees' quality of life
- We shall continue to improve the credit health and general financial wellness of employees through education and credit rehabilitation in partnership with a specialist service provider

Pay mix

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

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

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

Key management pay mix

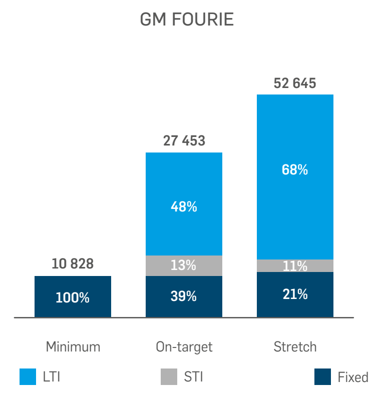
The key management pay mix proportional split between TGP, STI and LTI will not change significantly from the 2018 to the 2019 financial year.

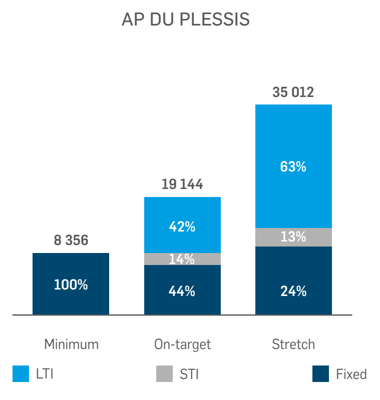
The principles determining key management pay mix are:

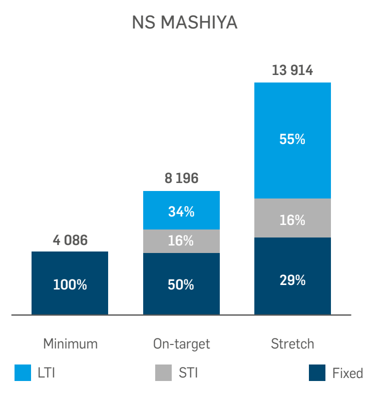
- TGP should be market competitive and sufficient in quantum to ensure that key management does not rely on variable remuneration-based short-term goals and decision-making.
- STI earning potential is conservative compared to the market, which supports Capitec's key remuneration principle of long-term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

The graphs below set out the pay mix of Capitec's executive directors for minimum, on-target and above-target performance. They demonstrate the strong pay-for-performance culture that is a core principle of our remuneration philosophy. The graphs assume the following:

	Calculation		
Element	**Minimum**	**On target**	**Above target**
TGP	TGP at 1 March 2018, see page 127. Benefits assumed in line with those paid in the 2018 financial year and contributions to the share purchase scheme assumed to be zero.		
STI	Nil	33% of annual TGP	54% of annual TGP
LTI	Nil	The maximum number of instruments granted in the 2018 financial year that might vest multiplied by the fair value on grant.	The maximum number of instruments granted in the 2018 financial year that might vest multiplied by the price on grant.







TGP

TGP for key management is informed by:

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

Executive directors are remunerated for services as employees of Capitec Bank. No fees are paid for their services as directors of any other companies in the group.

STI

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

Key aspects of the STI

- The STI is self-funded and settled in cash.
- The STI value is based on the achievement of personal and company financial performance measures. Targets are set by the REMCO annually to ensure that they are truly stretching and only reward exceptional performance.
- Although the STI is uncapped, the additional amount earned for performance above target is minimal. This ensures the STI earned remains modest when looking at the pay mix as a whole.
- Personal performance measure: personal KPIs contracted with the REMCO by each member of key management. While not specifically linked to the 6 capitals (set out by the International Integrated Reporting Council), the personal KPIs cover a broad spectrum of capitals and, most importantly, are aligned with Capitec's strategic priorities.
- Company performance measured as year-on-year HEPS growth.
- Failing on-target performance in either personal or company performance will warrant no payment.

Key management's earning potential for STI:

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

LTI

As part of their annual review of remuneration, the REMCO reviews best practice in respect of LTIs. This includes reviewing the type of instrument, appropriate performance measures and operation of malus and clawback. The REMCO believes that the current LTI structures are the most appropriate for Capitec.

Senior management performance bonus scheme

Senior management and roles identified as critical to the success of the organisation (specifically excluding key management and directors) are participants of the senior management performance bonus scheme. The goal of the scheme is to motivate a medium-term strategic focus for these employees.

Characteristics of the scheme include:

- Cash-settled
- Performance-based criteria include minimum personal performance and minimum company performance (growth in HEPS) to qualify for an award
- The benefits vest and pay out over 33 years in 3 equal tranches
- Forfeiture of all balances in the scheme on termination of employment other than formal retirement
- 75% of balances in scheme paid out on early retirement from 60 to 64 years, and full balance paid at the normal retirement age of 65

During the year, REMCO and management reviewed the scheme to provide greater alignment with shareholders, and allow participants to benefit from the success of the company. We introduced the choice for participants to defer all or a portion of the award into Capitec shares.

Key management LTI

LTIs for key management are awarded annually as a percentage of TGP. Share options and share appreciation rights (SARs) are granted on an equal basis (i.e. each 50%).

Share options

With an option, employees are entitled, but not obliged, to purchase Capitec ordinary shares at an agreed date in the future for a predetermined price. The option price is set equal to the market value of the share, being the 30-day volume-weighted average share price on the JSE immediately preceding the day on which the options are granted. The number of shares the employee can purchase is determined by company performance measures. The options vest in years 3, 4, 5 and 6 after grant, in 25% tranches. Participants have a 6-month period after the date on which the options vest to exercise their right to purchase shares.

Share appreciation rights

The SARs operate similarly to the options detailed above i.e. option price, performance measures, and vesting and exercise periods. SARs are settled in cash as opposed to equity. The amount settled is equal to the growth in share price above the option price. The SAR scheme is a simple, effective instrument and does not dilute issued share capital. SARs are granted at the same time and on the same terms (other than settlement) as the options.

Performance measures and vesting period

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

Measure	Minimum requirement for vesting	Weighting
HEPS	Growth exceeding CPI plus percentage growth in gross domestic product (GDP) plus 4%	50%
Return on equity (ROE)	Outperform the average ROE of the 4 traditional banks in South Africa (Absa Bank Limited, FirstRand Bank Limited, Standard Bank Limited, Nedbank Group Limited)	50%

Capitec chose an earnings metric and a return metric (equally weighted) as company performance measures for vesting to ensure the combination motivates key management to drive both measures as opposed to 1 measure at the cost of another. The targets set are absolute targets and there is no threshold. This is because Capitec believes that performance below minimum requirements does not warrant vesting.

Targets are measured over a cumulative 3-year performance period. After the initial 3-year financial performance period, vesting is subject to continued employment for years 4, 5 and 6.

The extent to which the performance conditions are met will determine the percentage vesting. If the HEPS measure is met, but not the ROE measure, 50% will vest and vice versa. If both measures are met 100% will vest, and if neither are met nothing will vest.

Termination of employment and effect on unvested LTI

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

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

Note:
Just cause dismissal/resignation: unvested LTIs are forfeited
Death and ill health: At the discretion of the REMCO, automatic vesting of LTI

Share dilution usage for LTI

Since the establishment of Capitec,17.2 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these exercised options. The balance of ordinary shares required to settle options that have been exercised were acquired in the market.

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

The past dilutive effect of issues of ordinary shares for purposes of the Trust since inception of Capitec remains at 5.04% of the issued ordinary share capital of Capitec as at 28 February 2018.

The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 28 February 2018.

Executive director and key management contracts

Executive directors and other key management do not have fixed term or bespoke key management contracts, but are employed in terms of the group's standard contract of employment. The notice period for termination of service is 1 calendar month. This was amended during the 2015 financial year so that the notice period for new key management appointments is 3 months.

Normal retirement age ranges from 60 to 65 years, unless the board requests to extend this term.

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

Upon termination of employment, all STIs are forfeited and unvested LTI will be treated in accordance with the LTI policy (refer to page 134, termination of employment and effect on unvested LTI).

Alignment of remuneration with risk, and minimum shareholding requirements

The REMCO forms part of the formal risk governance framework, and its charter mandates it to assess the appropriateness of the risk/reward relationship in remuneration structures. The REMCO is guided by the following:

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

The REMCO reviews variable remuneration and incentive plans to ensure they are based on a measurable end result.

Risk and compliance employees' remuneration

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

Minimum shareholding requirements (MSRs)

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

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

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

Shares are held until termination of employment. The percentage shareholding should be achieved within 5 years from 1 March 2016 or within 5 years of a key management appointment.

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

Non-executive director (NED) fees

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

NEDs do not qualify for any STI.

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

NEDs are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. NEDs who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved NED fees accordingly.

Proposed 2019 NED fees

The following proposed 2019 NED fees will be tabled for approval by shareholders (in terms of the Companies Act, Act 71 of 2008) at the AGM to be held on 25 May 2018. Refer to special resolution number 6 in the notice of AGM.

The lead independent director role has been specified separately for the first time this year, as it has previously not attracted any specific fees other than that of a normal NED.

The fee increases reflect the increasing demands on time invested due to the increase in the size and complexity of the company and corresponding changed benchmarking results. The new fees remain below the median of the comparator group.

Directors' fees (R'000)	2018	2019	Change (%)
Chairman of the board	**1 300**	1 390	6.92
Lead independent director	**–**[1]	250	–[1]
Directors	**300**	325	8.33
Chairman of audit committee	**250**	350	40.00
Chairman of risk and capital management committee	**250**	350	40.00
Chairman of the REMCO	**250**	270	8.00
Chairman of social and ethics committee	**60**	120	100.00
Audit committee member	**60**	120	100.00
Risk and capital management committee member	**60**	120	100.00
REMCO member	**60**	120	100.00
Social and ethics committee member	**60**	65	8.33
Committee membership	**60**	65	8.33
Directors' affairs committee	**–**	–	

[1] *Previously lead independent directors did not receive additional fees for this role. This has been introduced from the 2019 financial year.*

Part 3: Implementation report

The REMCO is satisfied that remuneration practices of the financial year comply with the remuneration policy and that there were no deviations from the policy.

Implementation of the policy over in the financial year is illustrated by providing:

- TGP increases approved in line with the Capitec total remuneration policy approach
- STIs earned versus the outperformance of targets set
- LTI awards granted in the reporting year
- LTI awards vesting in the reporting year
- Unvested LTI awards remaining
- An overview of the incremental total remuneration growth over the past 4 years compared to some key financial metrics (being the value added to shareholders in terms of metrics such as HEPS, ROE and share price growth)
- A single remuneration figure for the value of actual TGP paid, STIs paid, and any vested LTIs (where such LTI is based on financial performance periods ending during financial year 2018 or as at 28 February 2018)
- Executive directors' shareholding compared to minimum shareholding requirement
- The NED fees paid to individuals for their services as board and committee members

TGP

The TGP increases awarded were in line with the average awarded to all employees over the 2017 financial year.

The table below sets out the approved increases in executive director TGP for the 2018 financial year. Note that the actual TGP figures paid are included in the single-figure income table (on page 142). The reason for deviation of actual payment from approved payment is the inclusion of the risk benefit (based on approved TGP) and any unpaid leave the individual may have taken in a particular year.

Executive directors (R)	2018	2017	Change (%)
GM Fourie	**10 750 000**	10 000 000	7.5
AP du Plessis	**8 278 550**	7 630 000	8.5
NS Mashiya	**4 044 600**	3 780 000	7.0
	23 073 150	21 410 000	7.8

STI

As set out in the remuneration policy, a small proportion of key management remuneration is delivered through the STI. The REMCO believes that the performance targets set annually are stretching and only reward appropriate performance. The following table compares the executive directors' STI paid with on-target earning potential, the company performance measure, and targets on which the payment was based.

Performance measure	Performance targets*				Actual performance
Percentage year-on-year growth in HEPS	14.9%	15.0%	19.0%	23.0%	17.6%
Percentage of TGP payable	0.0%	33.3%	40.0%	46.7%	37.7%

* *Straight-line vesting between points*

Executive directors	2018 STI amount (R'000)
GM Fourie	**4 049**
AP du Plessis	**3 118**
NS Mashiya	**1 523**

The year-on-year growth in HEPS of 18% was above the 15% target. This translates to an STI payment of 36.7% of the approved TGP for the 2018 financial year. The REMCO is satisfied that the level of STI earned for the 2017 financial year is an accurate reflection of company and individual performance.

LTI

The following section sets out details of the instruments granted during the year, instruments vesting during the year (included in the single-figure table), and instruments that remained unvested at the end of the financial year. For instruments exercised during the year we set out the cash value received on exercise.

LTI awards granted in the reporting year

In line with our remuneration policy as set out in Part 2 (page 129), grants of options and SARs were made to executive directors during the year. Options and SARs are subject to the performance measures set out on page 134. Details of the number of shares and the options price are set out in the unvested awards table on page 140.

LTI awards vesting in the reporting year

With the introduction of the disclosure of a single total figure of remuneration, Capitec included, a value in respect of the options and SARs that are due to vest within 12 months of financial year-end (see table on page 139). This methodology is in line with the King IV™ guidance notes issued by the South African Reward Association (SARA) and the Institute of Directors in Southern Africa (IoDSA). The table on the following spread sets out details of the awards included and their value. We used a year-end share price of R832.46.

Executive	Type of instrument	Number vesting in 12 months following year-end for single-figure table	Value of shares included in single-figure table (R'000)
GM Fourie	Options	43 705	23 660
	SARs	25 583	17 980
	Total		41 641
AP du Plessis	Options	32 676	17 704
	SARs	17 295	12 524
	Total		30 228
NS Mashiya	Options	8 875	2 597
	SARs	3 000	2 497
	Total		5 094

LTI unvested awards

The following table sets out the unvested instruments remaining for each executive director. It includes a calculation of the indicative value of unvested instruments at the end of the 2017 financial year, and a calculation of cash value of instruments exercised in the 2017 financial year. The methodology used in determining these values is in line with the guidance notes issued by SARA and IoDSA.

Before studying the table, it is important to consider the following:

- To date, no instruments lapsed as no performance measures were applicable to awards that have vested thus far. The first grant with performance measures applicable was in 2017 and the first tranche to vest will be in February 2019.
- The indicative value of unvested instruments is an estimated value, and is not an actual reflection of the value of the award that will vest in future.
- The cash value of instruments exercised in the year represents the gain made on the exercise of instruments during the year.
- The indicative value of unvested instruments and the cash value of instruments exercised in the year should not be added together.

Date of award	Number of instruments	Strike price R	Number of instruments vested and exercised	Number of instruments lapsed	Closing number of unvested instruments	Indicative value of unvested instruments R'000	Number of instruments exercised in year	Share price at which instruments were exercised R	Cash value of instruments exercised in year R
GM Fourie									
Options									
2013	20 000	198.52	15 000	–	5 000	3 170	5 000	746.54	2 740 100
2014	17 500	201.4	8 750	–	8 750	5 520	4 375	746.54	2 384 987
2014	27 500	209.83	13 750	–	13 750	8 559	6 875	933.03	4 972 000
2015	18 330	196.43	9 165	–	9 165	5 826	4 582	746.54	2 520 604
2016	91 487	371.88	22 872	–	68 615	32 459	22 872	746.54	8 569 129
2017	36 677	473.05	–				–		–
2018	25 507	705.93	–				–		–
SARs									
2013	20 000	198.52	15 000	–	5 000	3 170	5 000	789	2 952 400
2014	17 500	201.4	8 750	–	8 750	5 520	4 375	789	2 570 750
2014	27 500	209.83	13 750	–	13 750	8 559	6 875	947.55	5 071 825
2015	6 225	0.01	3 113	–	3 113	2 566	1 556	789	1 227 865
2016	31 106	0.01	7 777	–	23 330	19 055	7 777	789	6 135 580
2017	36 677	473.05	–	–	36 677	15 155	–		–
2018	25 507	705 93	–	–	25 507	7 659	–		–
AP du Plessis									
Options									
2013	20 000	198.52	15 000	–	5 000	3 170	5 000	778.23	2 898 550
2014	17 500	201.4	8 750	–	8 750	5 520	4 375	719	2 264 500
2015	23 746	196.43	11 873	–	11 873	7 548	5 936	778.23	3 453 564
2016	69 454	371.88	17 364	–	52 091	24 641	17 364	719	6 027 218
2017	22 420	473.05	–	–	22 420	9 264	–	–	–
2018	15 714	705.93	–	–	15 714	4 719	–	–	–
SARs									
2013	20 000	198.52	15 000	–	5 000	3 170	5 000	789	2 952 400
2014	17 500	201.4	8 750	–	8 750	5 520	4 375	789	2 570 750
2015	8 065	0.01	4 033	–	4 033	3 325	2 016	789	1 590 801
2016	23 614	0.01	5 904	–	17 711	14 465	5 604	789	4 657 802
2017	22 420	473.05	–	–	22 420	9 264	–	–	–
2018	15 714	705.93	–	–	15 714	4 719	–	–	–
NS Mashiya									
Options									
2016	35 500	539.88	8 875	–	26 625	8 936	8 875	990	3 994 815
2017	7 791	473.05	–	–	7 791	329	–	–	–
2018	5 414	705.93	–	–	5 414	1 626	–	–	–
SARs									
2016	12 000	0.01	3 000	–	9 000	7 300	3 000	990	2 969 970
2017	7 791	473.05	–	–	7 791	3 219	–	–	–
2018	5 414	705.93	–	–	5 414	1 626	–	–	–

Key management value creation

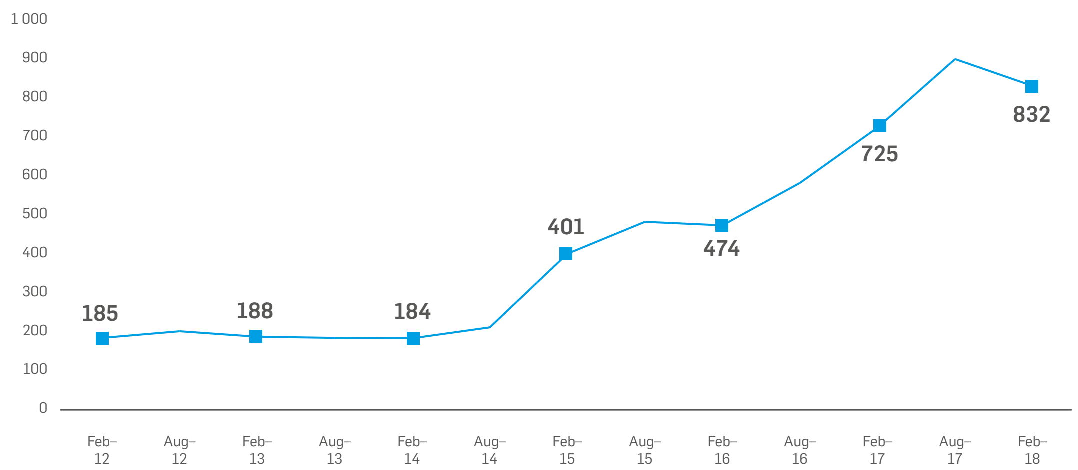
The table below compares the headline earnings of Capitec over the past 6 years, with the total executive remuneration paid in that year. The REMCO is satisfied that the level of executive pay as a proportion of headline earnings is reasonable considering the value created for investors over the period, in comparison to the incremental total remuneration increase over the same period. Note that the value included below in respect of total executive remuneration differs to that in the single-figure table as it uses the fair value at grant for LTIs, rather than the indicative value of awards that have vested.

Performance versus incremental remuneration increase	Headline earnings R'm	Total executive remuneration R'm*	Remuneration as percentage of headline earnings %	ROE %
2018	4 461	84	2	27
2017	3 793	90	2	27
2016	3 222	101	3	27
2015	2 547	62	2	25
2014	2 017	41	2	23
Value created over 4-year period versus remuneration cost differential	2 444	47	–	–

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

An important factor to consider is the rising share price over the same period, as illustrated in the below graph:

CAPITEC HOLDINGS LIMITED SHARE PRICE (JSE: CPI)



Executive director single figure

The following table illustrates a single remuneration figure for the value of TGP, benefits, STI and LTI. As set out earlier, the value of the LTIs included is in respect of the options and SARs that are due to vest in the 12 months following year-end. The corresponding value for the preceding year is included and, where necessary, restated to align with the new reporting requirements.

Executive directors (R'000)	Guaranteed pay	Benefits	Contribution to employee share purchase scheme[1]	STI	LTI	Total remuneration for the year
2018						
GM Fourie	**10 625**	**78**	**251**	**4 049**	**41 641**	**56 644**
AP du Plessis	**8 170**	**77**	**–**	**3 118**	**30 228**	**41 593**
NS Mashiya	**4 001**	**41**	**–**	**1 523**	**5 094**	**10 659**
	22 796	**196**	**251**	**8 691**	**76 963**	**108 896**
2017						
GM Fourie	9 750	80	–	3 750	37 019	50 600
AP du Plessis	7 525	76	–	2 861	29 094	39 556
NS Mashiya	3 733	42	71	1 418	3 818	9 082
	21 008	198	71	8 029	69 931	99 238

Executive director shareholding

In the previous financial year, the REMCO introduced MSRs for executive directors and other key management. (See the related section under Part 2: Remuneration philosophy and policy, on page 129.)

The REMCO is satisfied that all MSRs were met for the 2018 financial year as:

- The CEO and CFO are within their MSRs, exhibiting a strong buy-in to alignment with shareholder interests.
- The Executive: risk management on is track to achieving the 100% TGP required within the first 5 years of appointment to the position.

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

NED actuals (as approved at previous AGM)

NEDs received no other remuneration or benefits beside directors' fees. NEDs are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. NEDs who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved NED fees accordingly.

For the year under review, NED fees were as follows (excluding any reimbursement and VAT):

Non-executive directors (R'000)	2018	2017	Change %	2016
R Stassen (chairman)	**1 300**	1 004	29	388
CA Otto	**670**	620	8	574
LA Dlamini[1]	**325**	–	–	–
K Makwane[2]	**271**	–	–	–
G Pretorius[3]	**–**	79	–	306
JD McKenzie	**670**	565	19	522
JP van der Merwe[4]	**–**	–	–	29
JP Verster	**610**	565	8	491
MS du Pré Roux[5]	**300**	589	(49)	1 200
NS Mjoli-Mncube	**360**	330	9	306
PJ Mouton	**480**	495	(3)	462
RJ Huntley[6]	**–**	184	–	306
	4 986	4 431	13	4 584

[1] *Appointed on 6 April 2017.*
[2] *Appointed on 6 April 2017.*
[3] *Retired on 27 May 2016.*
[4] *Retired on 20 March 2015.*
[5] *Retired as chairman of the board on 27 May 2016, but continues to serve as non-executive director.*
[6] *Resigned from the board on 21 September 2016.*

Remuneration analysis

Bank		Strategic management	Senior management	Other employees	Total	Financial statement reference
Employees	Number	12	102	13 219	13 333	Key performance indicators
Remuneration awards						
Fixed	R'000	58 717	150 024	2 529 332	2 738 073	
Cash remuneration	R'000	58 717	150 024	2 529 332	2 738 073	Note 24
Variable	R'000	241 859	90 313	171 836	504 008	
Cash staff performance bonus	R'000	20 294	1 038	171 836	193 168	
Cash bonus bank	R'000	2 816	61 800	–	64 616	
Share options[1]	R'000	132 223	6 434	–	138 657	Note 24
Share appreciation rights[1]	R'000	86 526	21 041	–	107 567	Note 24
Variable remuneration						
Employees receiving awards	Number	12	102	13 219	13 333	
Non-deferred	R'000	20 294	24 092	171 836	216 222	
Deferred	R'000	221 565	66 221	–	287 786	
Outstanding deferred remuneration	R'000	420 676	115 036	–	535 712	
Cash bonus bank	R'000	2 840	63 995	–	66 835	Note 18
Share options[1]	R'000	242 075	26 526	–	268 601	Note 39
Share appreciation rights[1]	R'000	175 761	24 515	–	200 276	Note 40
Deferred remuneration paid out	R'000	237 391	120 436	–	357 827	
Cash bonus bank	R'000	3 357	83 792	–	87 149	
Share options[1]	R'000	132 517	18 628	–	151 145	
Share appreciation rights[1]	R'000	101 517	18 016	–	119 533	
Employees' exposure to adjustments	R'000	420 676	115 036	–	535 712	
Implicit adjustments	R'000	420 676	48 201	–	468 877	
Post explicit adjustments	R'000	–	66 835	–	66 835	
Total remuneration exposed to adjustments	R'000	420 676	115 036	–	535 712	
Implicit adjustments	R'000	420 676	48 201	–	468 877	
Post explicit adjustments	R'000	–	66 835	–	66 835	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

[1] *The remuneration relating to share options and share appreciation rights for strategic management includes the costs relating to R Stassen, a former executive director, which retired on 31 December 2013, and is currently involved as chairman of the board from 27 May 2016, as well as 3 executive officers who retired during the previous 3 financial years.*

09 *Social responsibility*

respon
sibility

We take our contribution as a responsible corporate citizen seriously. We focus on education and skills development as the critical tools to meet social challenges.

298

bursary holders supported by the Capitec Foundation

1 083

participants were reached through face-to-face financial literacy workshops

June 2015

establishment of the Capitec Foundation

BBBEE

Level 5 BBBEE rating on the amended FSC scorecard

12 678 kg

of electronic equipment was recycled

Social responsibility

We adopt a dual approach to social investment through the Capitec Foundation and Capitec's own social initiatives.

Social realities in South Africa that directly impact our ability to improve people's financial lives include:
- low levels of financial literacy;
- consumers' dependence on credit;
- lack of a savings culture;
- growing unemployment rates; and
- a lack of job opportunities for university graduates.

Our corporate social investment (CSI) strategy therefore aims to:
- address the needs of the communities we serve;
- address our core business objectives; and
- achieve Capitec's vision of being the best retail bank in the world.

We take our potential contribution as a responsible corporate citizen seriously. We focus on education and skills development as the critical tools to meet social challenges. We support this by aiming to create a competent workforce that delivers innovative banking solutions to well-informed clients who feel in control of their personal finances.

Our CSI approach is informed by our core fundamentals: we support programmes that are simple, accessible and that make sense to both internal and external people.

We adopt a dual approach:

The Capitec Foundation

The Foundation was established in June 2015 as our main vehicle for social initiatives. The Foundation is an independent non-profit organisation that focuses on 3 main areas of support to high school learners and their communities:
- high school education, with a specific focus on mathematics;
- financial literacy; and
- community support (donations).

The Foundation aims to give young South Africans a brighter future by upskilling them with the necessary numeracy and financial life skills to manage their financial lives. This enables them to get access to tertiary studies and employment to bring change to their respective communities and the country as a whole.

Capitec social investment

Capitec's own social initiatives take the form of sponsorships combined with investments to address skills shortages.

We focus on financial life skills for primary school learners, first-year students and the wider community.

Our sponsorship partnerships give consumers tools and knowledge through different platforms to make better financial decisions. This in turn builds our reputation.

CSI investments are managed by the marketing team and reported to the EXCO, with the social and ethics committee providing oversight.

Education

Education is supported through partnerships with schools, learners, parents, the Department of Basic Education and tertiary institutions. The foundation's programmes include support for grades 10 to 12 learners with mathematics as a Grade 12 subject and holistic support through tutoring and school management support for principals and educators.

Partnerships for education are based on service level agreements that track performance indicators, such as pass and completion rates.

Bursaries – high school learners

298

bursary holders from 54 schools across the Western Cape Metro and Cape Winelands Districts participated in 2017

The Foundation's bursary programme recruits talented but under-resourced learners who study mathematics. High school learners who met our criteria received bursaries to cover their annual school fees. The programme has been running since 2012, with the focus recently shifting from learners to a teacher-based programme to upskill educators.

Learners and schools participating in the Western Cape programme have access to the following:
- Financial assistance
- Academic support
- Financial life skills training
- Leadership training
- Career guidance

Financial literacy

1 083

participants were reached through face-to-face workshops

2 303

people attended presentations and other initiatives

The Foundation held financial life skills workshops and seminars as part of its educational programmes for learners, parents, educators and school leaders from schools participating in the Foundation's programmes.

Our goal is to empower the audience with basic financial life skills and to encourage them to use the skills learned to influence their communities. Employees were encouraged to volunteer their skills and time to train learners via different educational programmes.

Consumer education campaigns

Good for credit for consumers

We rolled out Good for Credit on various media platforms to empower consumers with knowledge to enable them to make sound credit decisions.

The topics covered included what to consider when making a decision to take up credit and also what to do when help is required.

GRAD Study Trust sponsorship for students

We sponsored the GRAD magazine, which has various helpful articles covering topics such as money management, time management, nutrition as well as goal setting for first year students and Student in Transition. GRAD magazine is issued in partnership with Ruda Landman's Readers Unite initiative, Study Trust as well as Van Schaik Publishers and is endorsed by the South African National Resource Centre. The printed copies were distributed to 17 universities across the country.

Eastern Cape integrated support programme

12

schools with 144 grades 10 to 12 learners in Komani

5

schools with 90 grade 10 to 12 learners in Mthatha

The Foundation partnered with Nelson Mandela University's Govan Mbeki Mathematics Development Centre (GMMDC) Mathematics and Physical Sciences Support and Development Programmes and the Eastern Cape Department of Education to fund the Integrated TouchTutor™ Maths and Science support programme (ITSP) in Komani, Eastern Cape.

We extended the partnership in 2017 to give selected learners and educators in Mthatha the opportunity to participate.

A new financial literacy component was included in 2017 as part of the ITSP and the grade 12 learners attended the Mathematics and Science Exam Revision Spring Schools in Komani and Mthatha. Learners could also participate in a Mobile Maths competition.

Twenty in-service mathematics teachers from 10 schools in each node attended a teacher professional learning community support programme parallel to the time that learners attended the ITSP programme on Saturdays. The teachers received laptops to use as a teaching resource loaded with the same curriculum-aligned software to which learners have access on their tablets.

IkamvaYouth

10 700

Over 10 700 pupils from over 100 schools participated since 2013

IkamvaYouth provides after school support for learners in Grade 8 – 12. Its model uses peer-based support, group tuition, grade 12 mentoring and facilitated access to computers and edtech products. Learners enrolled in the programme have access to over 300 hours of tutoring and workshops per annum as well as a 2-week winter school programme. Our sponsorship entails funding, capacity-building within IkamvaYouth, and improving maths and science performance of learners in the programme.

IkamvaYouth's model has consistently generated results that significantly exceed national averages. Since the first matric group in 2005 the Ikamvanites have achieved matric pass rates of between 80-100%. In 2017, a total of 472 grade 12 learners in 5 provinces wrote their final exams: 85% passed of which 73% were either Bachelor or Diploma passes, ensuring these learners are eligible for tertiary studies. In the 2018 calendar year it is supporting 2 400 learners across 16 branches.

School management development programme

The Capitec Foundation sponsored the UCT Graduate School of Business (GSB) course in Management Development Programme for 27 school principals from the Cape metros and Winelands districts. Through this programme, we hope to improve leadership skills and effective management of schools. We believe that effective school management will lead to motivated teachers and improved performance by learners.

We will extend this programme to the principals in Komani, Eastern Cape in 2018/19.

Primestars eduCate Revision programme

3 527

learners attended mathematics sessions

2 495

learners attended science sessions

The Capitec Foundation sponsored the Primestars eduCate Revision programme as part of its learner support for maths and science. This is a cinema-based programme, aimed to give grade 12 learners from disadvantaged backgrounds the opportunity to revise mathematics and science before their final examinations.

National Science Week 2017 sponsorship: speed dating for the brain

The Capitec Foundation partnered with the Department of Science and Technology (DST) to host the National Science Week from 5 to 13 August. The DST initiative is held every year to raise awareness of the importance of maths and science. The awareness week consists of interactive maths, science and financial life skills games called "Speed Dating for the Brain" and the exhibitions took place in a mall. The public could participate for free.

StarSaver™ programme

676

learners from 9 schools were reached by 14 Capitec volunteers

StarSaver™ is a Banking Association of South Africa (BASA) generic financial literacy programme to encourage a culture of saving among young people and promote volunteerism and collaboration in the banking industry. Capitec has been a participant since 2008.

Community support

Color Run™ sponsorships

R1.5m

raised to benefit 56 schools with 15 000 learners in 7 provinces since 2015

Our sponsorship of the Color Run™ allows us to connect with communities across South Africa and encourage like-minded South Africans to live better. Capitec donated R10 from every paid entry ticket of the Color Run™ towards supporting a local school.

A total of R1.4 million was raised over the past 3 years and funds were used to provide science and mathematics resources, white boards with projectors, laptops, laboratory equipment, a vegetable garden, school uniforms, food parcels, and a mobile library unit.

Capitec Foundation donations

R490 000

donated to 41 organisations across 8 provinces

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

Other Capitec Bank ad hoc donations:

- R200 000 towards building of extra classrooms at Bulungula school in Nqileni Village, Eastern Cape.
- R100 000 to *Gift of The Givers* in response to the fire disaster that occurred in Knysna, Western Cape. Our approach to national disaster relief is to support existing relief efforts. By choosing this route, we help enhance and further amplify these efforts. We undertake to actively support disaster relief through recognised and legitimate disaster relief organisations.
- 1 827 decommissioned branch chairs were donated, mostly to needy farm schools in Gauteng.

Broad-based black economic empowerment

As a responsible corporate citizen, we are committed to B-BBEE: a uniquely South African social and economic challenge.

Following the amended Financial Sector Code (FSC), promulgated on 1 December 2017 in the Government Gazette, we are reviewing our empowerment focus areas to align with the new requirements. These encourage all participants to commit to actively promote a transformed and globally competitive financial sector. This will contribute to the establishment of an equitable society, by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

In terms of this code, we would have dropped from a Level 4 to a Level 7 B-BBEE rating on the amended FSC scores. Our score would have lowered further to a Level 8 for not meeting certain minimum levels in supplier and enterprise development (SD and ED).

During the year we invested R25 million in a supplier to attain the minimum on SD. We were required to make a grant of R3 million to an enterprise development fund (EDF) to attain the minimum score in ED Consistent improvement in our employment equity and skills development efforts, together with extensive contributions toward socio economic development, helped us attain a level 6 B-BBEE rating on the amended scorecard. Specific future focus areas are enterprise development, supplier development, consumer education and social development, to return to our former level 4.

Our most recent verification confirmed the bank's B-BBEE status as a Level 5 contributor.

Summary of Capitec Bank's scorecard[1]

Element	2018	2017	2016
Ownership	**16.54**	9.19	11.42
Management	**8.09**	3.26	2.93
Employment equity	**–**	6.63	6.19
Skills development	**11.27**	9.01	9.00
Preferential procurement	**9.90**	15.27	15.26
Enterprise development	**5.84**	1.58	2.09
Socio-economic development	**3.00**	1.28	1.15
Empowerment financing	**12.00**	12.00	12.00
Access to financial services	**11.40**	9.30	9.29
Total	**78.04**	67.52	69.33

[1] *Provisional B-BBEE scorecard. Due to change in the measurement of each category, the 2018 numbers are not comparable to the prior years'.*

Preferential procurement

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

- R534 million (12% of TMPS) towards exempt micro enterprise (EME) and qualifying small enterprise (QSE) spend. (2017: R481 million)
- R284 million (6% of TMPS) towards 50% black-owned business spend (2017: R349 million)
- R160 million (4% of TMPS) towards 30% black women-owned business spend (2017: R228 million)

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

	2018	2017	2016
B-BBEE procurement spend	**2 438**	2 188	1 837
EME and QSE procurement	**571**	478	361
Black-owned and black women-owned	**338**	350	302

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

	2018	2017	2016
B-BBEE procurement spend	**2 438**	2 188	1 837
Total measured procurement spend	**4 392**	3 308	2 307

Empowerment financing

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

Access to financial services

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

The environment

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

Capitec has adopted a board-approved strategy to focus on efficient electricity management, as this is the single-largest contributor to our carbon footprint.

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

Governance

The social and ethics committee monitors the group's activities with regard to environmental matters.

Electricity

Capitec relies on Eskom for all its electricity requirements. During the year, 30 407 MWh (2017: 29 616 MWh) of electricity was consumed.

Paper

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

Waste and recycling

Employees at head and regional offices are required to recycle paper in special paper bins and are encouraged to use the special bins provided for recyclable materials. The primary focus is to recycle paper and tins. 11 948 kg (2017: 10 387 kg) paper and 1 179 kg (2017: 1 110 kg) tins were recycled.

Electronic equipment is disposed of and recycled by accredited third parties. In total 12 678 kg (2017: 10 730 kg) of electronic equipment was recycled.

Carbon footprint

Methodology

- The GHG protocol – Corporate Accounting and Reporting Standard (revised edition)
- Emission conversion factors as published by the Department for Environment, Food and Rural Affairs (DEFRA)
- Operational control approach
- The 2012 financial year was selected as base year
- The 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2016

Assumptions

- The calculation is limited to Capitec Bank. All other group entities are considered immaterial.
- Employee commute is excluded due to insufficient data.
- Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2018 was based on accurate records. Some instances required the use of averages due to certain electricity usage data not being available. Such instances were, however, very limited and had an immaterial impact.

Target

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

Carbon footprint (tCO_2e)

GHG protocol scope	2018	2012 baseline
Scope 1: Direct emissions from	**940**	146
Fuel used in directly controlled or owned equipment	**24**	1
Fuel used in directly owned or controlled vehicles	**48**	82
Air-conditioning and refrigeration gas refills	**868**	63
Scope 2: Indirect emissions from purchased electricity	**30 407**	22 971
Purchased electricity – Eskom	**30 407**	22 971
Total scope 1 and 2	**31 347**	23 117
Scope 3: Indirect emissions from:	**13 246**	5 080
Business travel – rental vehicles	**96**	46
Business travel – commercial airlines	**3 097**	1 764
Business travel – employee-owned vehicles	**5 017**	2 010
Product distribution – cash in transit	**3 854**	858
Paper usage	**1 182**	402
Total scope 1, 2 and 3	**44 593**	28 197

Intensity footprint (tCO_2e)

GHG protocol scope	2018 Per full-time employee	2018 Per m² floor space	2012 baseline Per full-time employee	2012 baseline Per m² floor space
Scope 1 emissions	**0.03**	**0.00**	0.02	0.00
Scope 2 emissions	**2.08**	**0.11**	3.19	0.15
Total	**2.11**	**0.11**	3.21	0.15

The carbon footprint is not subject to independent assurance.

Although there was a 58% increase in the overall footprint between the baseline and current year emissions, there was a 34% (for scope 1 and 2 emissions) reduction in the footprint measured according to the intensity footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.

Social and ethics committee report 2018

The social and ethics committee monitors the group's activities with regard to:

- *social and economic development;*
- *good corporate citizenship;*
- *environmental, health and public safety;*
- *impact of the company's activities and services;*
- *consumer relations; and*
- *labour and employment relationships.*

The committee functions within the ambit of an annually reviewed board-approved charter and meets twice a year.

The members of the social and ethics committee are:

- Piet Mouton (non-executive chairman);
- Nkosana Mashiya (executive: risk management); and
- Lindi Dlamini (independent non-executive director).

Read more about the committee members' qualifications and experience in their profiles on pages 74 and 75.

The executive: human resources and operational risk manager are invited to attend all meetings of the committee. The chairman may invite such executives and senior management as appropriate to attend and be heard at meetings of the committee.

Group activities monitored during the year

Social and economic development	• Total economic value distributed in the 2018 financial year – page 162 • Our fundamentals and values – pages10 to 12 • Human rights – page 29 • Zero tolerance for fraud and corruption – page 99 • Employment equity – page 116 • B-BBEE – pages 152 and 153
Good corporate citizenship	• Social responsibility – pages 148 to 151 • Our stakeholders – pages 26 to 28 • Our awards – pages 24 to 25
Environment and health and public safety and impact of company's activities and of its products and services	• Pages 10 to 17; 154 to 156
Consumer relations and commitment to consumer protection laws	• Pages 40 and 41; 100 and 101 • The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.
Labour and employment	• Pages 112 to 122

The company demands a high standard of ethical conduct in its business practices and its dealing with stakeholders. Employees have access to a range of policies giving guidance on ethical conduct on the company's intranet and are encouraged to ask questions, report suspicious activities to management or through Tip-offs anonymous and to uphold the Capitec Way. Ethics coaching is incorporated in general employee training to guide staff with regard to expected ethical conduct. The legal, compliance, internal audit, forensic and training departments all form part of the assurance process to facilitate an ethical outcome in the company's activities.

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

The committee is of the opinion that the Capitec group complies, in material respects, with legislation, regulations and codes of best practice relevant to the committee's mandate. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

Piet Mouton
Chairman of the social and ethics committee

10 *Appendices*

20%

of economic value distributed to employees

28%

of economic value distributed to suppliers

36%

of economic value distributed to providers of funds

Our insurance offering provides our clients with financial means to cover expenses during a period when they need someone they can trust and rely on.

REPORT OVERVIEW
CAPITEC AT A GLANCE
OUR OPERATING ENVIRONMENT
LEADERSHIP REVIEWS
LEADERSHIP TEAM AND OVERSIGHT
RISK MANAGEMENT
OUR EMPLOYEES
REMUNERATION REPORT
SOCIAL RESPONSIBILITY
APPENDICES

Statement of economic value added

Year ended 28 February 2018

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

R'000	2018	2017
Direct economic value generated		
Interest income	15 474 457	14 934 427
Loan fee income	1 792 852	1 136 821
Transaction fee income	6 925 526	5 499 858
Dividend income	–	45
Net movement in financial instruments held at fair value through profit or loss	–	–
Other income	(994)	54
(Loss)/income from associates	–	–
Net impairment charge on loans and advances to clients	(5 279 990)	(5 121 177)
Share of net profit of associates	2 535	–
Total direct economic value generated	18 914 386	16 450 028
Economic value distributed		
To suppliers in payment of operating expenses	4 391 014	3 832 318
To employees	3 189 895	2 757 350
Ordinary dividends	1 531 483	1 306 584
Preference dividends	12 023	15 719
Interest paid to providers of wholesale funding	745 293	891 029
Interest paid to savings clients	3 439 156	2 660 792
To providers of funds	5 727 955	4 874 124
Normal tax	1 639 385	1 464 296
Value added tax	358 991	464 002
Unemployment insurance	19 900	17 470
Skills development levies	29 682	23 765
Property rates and taxes	14 470	12 273
To the public purse	2 062 428	1 981 806
To the community	10 585	13 447
Total economic value distributed	15 381 877	13 459 045
Economic value retained for expansion and growth		
Retained income	2 927 211	2 484 627
Depreciation and amortisation	560 150	536 977
Deferred tax	45 149	(30 621)
Total economic value retained for expansion and growth	3 532 510	2 990 983

Glossary

Acronym	Description
AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
ALSI	JSE All Share Index
AMPS	All Media and Products Survey
AT1	Additional tier 1
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
Basel	Basel Committee on Banking Supervision
B-BBEE	Broad-based Black Economic Empowerment
C.Connect	Electronic Communications
C.Net	Web-based employee portal
Capitec	Capitec Bank Holdings Limited
Capitec Bank	Capitec Bank Limited
Capitec Bank pillars	Simplicity, Affordability, Accessibility and Personalised experience
CCS	Centralised collection services
CET1	Common equity tier 1
CMT	Continuity management team
CPA	Credit Providers Association
CSI	Corporate Social Investment
DEFRA	UK Department for Environment, Food and Rural Affairs
DMTN	Domestic Medium Term Note Programme
DNR	Dual note recycler
DPS	Dividends per share
DR	Disaster recovery
D-SIB	Domestically systemically important bank
EEA2	Employment Equity Act form 2
EPS	Earnings per Share
EXCO	Executive management committee
FICA	Financial Intelligence Centre Act, 2001
FRN	Floating rate note
FSC	Forest Stewardship Council
GDP	Gross domestic product
GHG	Greenhouse gas
GRI	Global Reporting Initiative
IFRIC	International Financial Reporting Standards Interpretations Committee
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
HEPS	Headline Earnings per Share
IA	Internal Audit
IAR	Integrated annual report
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement

Acronym	Description
IFRS	International Financial Reporting Standards
IRM	Integrated risk management
ISMS	Information security management system
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King IV™	Report on Corporate Governance™ for South Africa, 2016
LCR	Liquidity coverage ratio
LDT	Last day of trade
LRP	Liquidity recovery plan
LSM	Living standards measure
Moody's	Moody's Investors Services Inc.
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, 2005
NCD	Negotiable Certificate of Deposit
NCR	National Credit Regulator
NSFR	Net stable funding ratio
OCR	Optical character recognition
PASA	Payments Association of South Africa
PD	Probability of default
POCA	Prevention of Organised Crime Act, 1998
Polproc	Policies and procedures department
POS	Point-of-Sale Merchant
Primary banking client	When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries.
PwC	PricewaterhouseCoopers Inc.
Quality client	Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3-month period.
RCMC	Risk and capital management committee
REMCO	Human resources and remuneration committee
Remote banking	Remote banking refers to both banking app and USSD transactions.
RISCO	Risk committee
ROE	Return on equity
SAMOS	South African Multiple Options Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Services
SARs	Share Appreciation Rights
SST	Self service terminals
Stats SA	Statistics South Africa
T2	Tier 2
The group	Capitec Bank Holdings Limited and subsidiaries
VWAP	Volume weighted average price
WACC	Weighted average cost of capital

Annual financial statements

financial statements

945 cents

dividend per share

115 626 991

shares in issue

1.14%

shareholding by executive management

8.52%

black economic empowerment shareholding

10%

no client accounts for more than 10% of revenue

Contents

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

Statement of responsibility by the board of directors

Capitec Bank Holdings Limited and its subsidiaries (the group)

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec Bank Holdings Limited. The annual financial statements, comprising the statements of financial position at 28 February 2018, income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, Act 71 of 2008, as amended (Companies Act) and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors' report.

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

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the financial statements comply with relevant legislation.

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

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

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

The group's external auditor, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on pages 170 to 174.

The annual financial statements set out on pages 175 to 245 were approved by the board of directors and signed on its behalf on 26 March 2018 by:

Riaan Stassen	**Gerrie Fourie**
Chairman	*Chief executive officer*

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Holdings Limited, that for the year ended 28 February 2018, the company has filed all required returns and notices in terms of the Companies Act, and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

Yolande Mouton
Stellenbosch

26 March 2018

Audit committee report

Capitec Bank Holdings Limited and its subsidiaries (the group)

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

The committee is comprised of 3 independent non-executive directors. The committee met 3 times during the year with 100% attendance by members at the meetings.

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

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2018.

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

- Satisfied itself that the external auditor is independent of the company, as set out in section 94(8) of the Companies Act, and suitable for reappointment by considering, inter alia, the information stated in paragraph 22.15(h) of the JSE Listings Requirements
- Ensured that the appointment of the auditor complied with the Companies Act, and any other legislation relating to the appointment of an auditor
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2018 financial year
- Approved the nature and extent of non-audit services that the external auditor may provide
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements
- Reviewed the accounting policies and the group financial statements for the year ended 28 February 2018 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Companies Act, the Code and IFRS
- Undertook the prescribed functions in terms of section 94(7) of the Companies Act, on behalf of the subsidiary companies of the group

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

- Considered the sustainability report forming part of the integrated annual report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 26 March 2018, recommended the integrated annual report for approval by the board of directors
- Ensured that the group's internal audit function is independent and has the necessary resources and authority to enable it to discharge its duties
- The committee approved the internal audit charter and the annual audit plan
- The committee met with the external auditor and with the head of the internal audit function without management being present
- The committee satisfied itself in terms of the JSE Listings Requirements 3.84(g)(i) that the group financial director has appropriate expertise and experience

Jean Pierre Verster
Chairman

26 March 2018

Directors' report

Year ended 28 February 2018

The directors present their report to shareholders for the year ended 28 February 2018.

Nature of the business

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

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

Review of operations

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

Share capital

No ordinary shares were issued during the year ended 28 February 2018, bringing the number of shares in issue to 115 626 991 (February 2017: 115 626 991).

No ordinary shares were repurchased during the year and 423 137 (February 2017: 253 660) preference shares were repurchased.

Dividends to shareholders

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

	2018	2017
Ordinary dividend (cents per share)		
Interim	**525**	450
Final	**945**	800
Preference dividend (cents per share)		
Interim	**438.68**	440.11
Final	**423.56**	433.89

The final ordinary dividend for 2018 was approved by the directors on Monday, 26 March 2018. In terms of the requirements of IFRS no accrual was made for this dividend.

Subsidiaries and associates

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

Directors and company secretary

Information relating to the directors and company secretary are included in chapter 5 of the integrated annual report:

- LA Dlamini was appointed to the board on 6 April 2017
- K Makwane was appointed to the board on 6 April 2017

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

Independent auditor's report

To the Shareholders of Capitec Bank Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited (the Company) and its subsidiaries (together the Group) as at 28 February 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Holdings Limited's consolidated and separate financial statements set out on pages 175 to 243 comprise:

- the consolidated and separate statements of financial position as at 28 February 2018;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the Capitec Bank Holdings Limited Integrated Annual Report 2018, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Overall group materiality

- Overall group materiality: R307.7 million, which represents 5% of consolidated profit before tax.

Group audit scope

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

Key audit matters

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

- Impairment provision of loans and advances to clients.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

Overall group materiality	R307.7 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

We scoped in entities for group reporting purposes where such entities contributed to profit before tax or the total asset value of the Group, with Capitec Bank Limited being the only financially significant entity. Entities included in our audit scope all operate in South Africa. The investments in Creamfinance Holding Limited, an associate which is registered in Cyprus, and Praelexis Proprietary Limited, an associate registered in South Africa, were excluded from our audit scope as they are considered financially insignificant to the group. We performed analytical review procedures over these insignificant entities at a group level.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, in order to issue our audit opinion on the consolidated financial statements of the Group. The group engagement team is the statutory auditor of all the entities within the Group, with the exception of the investment in associates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matter that relates to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company of the current period.

Key audit matter	How our audit addressed the key audit matter

Impairment provision of loans and advances to clients
At 28 February 2018, the gross retail unsecured loans and advances to individuals were R48.3 billion against which an impairment provision of R5.8 billion was recorded. This is disclosed in note 7 (Net loans and advances) to the consolidated financial statements. Loans and advances are stated at amortised cost net of identified impairments and incurred but unidentified impairments.
 	
The impairment provision was a matter of most significance to the audit given both the magnitude of the provision as well as the amount of management judgement required around the inputs into the calculation.
 	
In calculating the impairment loss, management assesses any observable data which may indicate 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.
 	
Significant management judgement is required regarding the timing and amount of the forecasted cash flows which are used as inputs into the discounted cash flow models.
 	
Historical loss experience is used by management in determining the estimated probability of default and recovery rates of future cash flows. These are key areas of judgement as disclosed in note 3.1 (Critical accounting estimates and judgements in applying accounting policies – Impairment losses on loans and advances) to the consolidated financial statements.
 	
Identified impairments:
Where observable data indicates there is a measurable decrease in the estimated future cash flows, adjustments are made to the discounted cash flow model. These cash flows are then discounted at the original effective interest rate.
 	
Management analyse the loans and advances book on a monthly basis and increase the results produced by the modelled output for current macro-economic and rescheduling factors that influence the modelled output, which are not reflected in the historical data.
 	
Incurred but unidentified impairments:
An additional impairment provision is raised for loans and advances that are impaired, but for which objective evidence is not yet available. The calculation of this impairment utilises the results of the above analyses to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. The emergence period is determined based on the experience of the length of time that it takes for objective evidence to become apparent after the asset has become impaired and is considered to be a significant estimate.
 	
Refer to note 7 (Net loans and advances), note 23 (Net provision charge on loans and advances), note 29.1 (Credit risk), note 2.5 (Accounting policy – Impairment of advances) and note 3.1 (Critical accounting estimates and judgements in applying accounting policies – Impairment losses on loans and advances) to the consolidated financial statements for the related disclosures.
	Our audit included obtaining an understanding and testing of the relevant internal controls over the impairment of loans and advances. Our testing included performing a reconciliation of the data from the loans and advances administration system to the data used in the impairment calculation. We performed testing, on a sample basis, on the data in the loans and advances administration system. Using this data we tested the inputs used by management to develop the historical base from which to calculate the estimated future cash flows.
	
	With the involvement of our actuaries and specialist accounting technical teams, we have, for modelled portfolio impairments:
	• Considered the methodologies and assumptions used in the assessment of the loan impairment provision as well as the appropriateness of the accounting policies, in order to compare these with the requirements of International Accounting Standard 39 Financial instruments: Recognition and Measurement;
	• Evaluated the estimated future cash flows and discount rate used by management as inputs in their discounted cash flow model used to calculate the impairment provision. Our assessment of the inputs included an assessment of the probability of default and run-off of recoveries which are areas of significant judgement; and
	• We compared this to our own methodologies and available industry data. We found management's approach and assumptions to be consistent with our expectations.
	
	For adjustments to modelled portfolio impairments:
	• Using our knowledge and understanding of the industry as well as current observable factors which we would expect to be taken into account given industry and economic data available, we:
	    • gained an understanding of how management used relevant information to increase the output of their models in determining the impairment provision relating to loans and advances; and
	    • assessed the impact of the treatment of renegotiated and rehabilitated loans in the impairment model.
	
	We found management's adjustment to the modelled output to be in line with our own independent expectation.
	
	For incurred but unidentified impairments, we assessed the assumptions specifically around the emergence period, and considered these to be reasonable when compared to our own actuarial statistics and market experience.
	
	In addition, with the assistance of our actuaries we assessed the robustness and final reasonability of the estimated provision produced by management by including management's data in our audit models and comparing our independent estimate to theirs.
	
	Based on our testing performed over modelling methodologies and assumptions applied, we found management's estimates, including other adjustments, to be within an acceptable range of outcomes.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Capitec Bank Holdings Limited Integrated Annual Report 2018* which includes the Directors' Report, the Audit Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Capitec Bank Holdings Limited for 17 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C van den Heever
Registered Auditor

Cape Town
26 March 2018

Consolidated statement of financial position

As at 28 February 2018

		GROUP		COMPANY	
R'000	**Notes**	2018	2017	2018	2017
Assets					
Cash, cash equivalents and money market funds	4	**25 090 728**	18 677 222	**2 793**	2 107
Held-to-maturity investments	5	**11 780 934**	5 326 724	**–**	–
Term deposit investments	6	**2 528 331**	6 600 749	**–**	–
Net loans and advances	7	**41 814 395**	39 204 980	**–**	–
Other receivables	8	**721 827**	871 479	**5 652**	7 643
Net insurance receivable	9	**245 204**	255 360	**–**	–
Derivative assets	10	**129**	58 113	**–**	–
Available-for-sale financial assets	11	**100 000**	100 000	**–**	–
Current income tax asset		**107 154**	–	**–**	–
Investment in associate	12	**134 352**	–	**128 658**	–
Interest in subsidiaries	12	**–**	–	**5 751 481**	5 815 560
Property and equipment	13	**1 754 342**	1 523 395	**–**	–
Intangible assets	14	**283 011**	279 946	**–**	–
Deferred income tax asset	15	**396 827**	459 929	**–**	–
Total assets		**84 957 234**	73 357 897	**5 888 584**	5 825 310
Liabilities					
Derivative liabilities	41, 42	**54 576**	45 598	**3 210**	–
Current income tax liability		**–**	30 341	**–**	–
Retail deposits*	16	**57 824 498**	48 039 220	**–**	–
Other liabilities	17	**1 913 921**	1 500 650	**8 928**	9 685
Wholesale funding*	16	**6 205 726**	7 543 051	**–**	–
Provisions	18	**66 835**	81 024	**–**	–
Total liabilities		**66 065 556**	57 239 884	**12 138**	9 685
Equity					
Capital and reserves					
Ordinary share capital and premium	19	**5 649 020**	5 649 020	**5 649 020**	5 649 020
Cash flow hedge reserve	20	**(26 737)**	(11 736)	**–**	–
Foreign currency translation reserve	20	**3 158**	–	**–**	–
Retained earnings		**13 153 434**	10 329 731	**114 623**	15 607
Share capital and reserves attributable to ordinary shareholders		**18 778 875**	15 967 015	**5 763 643**	5 664 627
Non-redeemable, non-cumulative, non-participating preference share capital and premium	19	**112 803**	150 998	**112 803**	150 998
Total equity		**18 891 678**	16 118 013	**5 876 446**	5 815 625
Total equity and liabilities		**84 957 234**	73 357 897	**5 888 584**	5 825 310

* *Reclassification:*
Deposits and bonds presented in the prior year have been split into retail deposits and wholesale funding. The comparative figures have been presented accordingly.

Consolidated income statement

Year ended 28 February 2018

		GROUP		COMPANY	
R'000	Notes	2018	2017	2018	2017
Lending, investment and insurance income	21	17 267 309	16 071 248	215	126
Interest income	21	15 474 457	14 934 427	215	126
Loan fee income	21	919 328	874 938	–	–
Net insurance income	9	873 524	261 883	–	–
Lending and investment expenses		(4 597 316)	(4 194 266)		–
Interest expense	21	(4 184 449)	(3 551 821)	–	–
Loan fee expense	21	(412 867)	(642 445)	–	–
Net lending, investment and insurance income		12 669 993	11 876 982	215	126
Transaction fee income		6 925 526	5 499 858	–	–
Transaction fee expense		(1 798 483)	(1 576 435)	–	–
Net transaction income		5 127 043	3 923 423	–	–
Dividend income	22	–	45	1 643 831	1 322 304
Net provision for doubtful debts charge	23	(5 279 990)	(5 121 177)	–	–
Other (expense)/income		(994)	54	4 263	3 121
Net income		12 516 052	10 679 327	1 648 309	1 325 551
Operating expenses		(6 363 337)	(5 438 722)	(4 478)	(3 220)
Share of net profit of associates	12	2 536	–	–	–
Operating profit before tax	24	6 155 251	5 240 605	1 643 831	1 322 331
Income tax expense	25	(1 684 534)	(1 433 675)	–	–
Profit for the year		4 470 717	3 806 930	1 643 831	1 322 331
Earnings per share (cents)					
Basic	26	3 855	3 278		
Diluted	26	3 843	3 267		

Consolidated statement of other comprehensive income

Year ended 28 February 2018

		GROUP		COMPANY	
R'000	Notes	2018	2017	2018	2017
Profit for the year		4 470 717	3 806 930	1 643 831	1 322 331
Other comprehensive income that will be reclassified to profit or loss for the year		(15 001)	(75 883)	–	–
Cash flow hedge reserve recognised during the year	20	59 116	(211 809)	–	–
Cash flow hedge reclassified to profit and loss for the year	20	(79 951)	107 867	–	–
Income tax relating to cash flow hedge	20	5 834	28 059	–	–
Foreign currency translation reserve recognised during the year	20	3 158	–	–	–
Total comprehensive income for the year		4 458 874	3 731 047	1 643 831	1 322 331

Consolidated statement of changes in equity

Year ended 28 February 2018

R'000	Notes	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
GROUP							
Balance at 29 February 2016		5 649 020	173 894	–	64 147	7 772 004	13 659 065
Total comprehensive income for the year		–	–	–	(75 883)	3 806 930	3 731 047
Ordinary dividend		–	–	–	–	(1 306 584)	(1 306 584)
Preference dividend		–	–	–	–	(15 719)	(15 719)
Employee share option scheme: value of employee services		–	–	–	–	42 029	42 029
Shares acquired for employee share options at cost	35	–	–	–	–	(27 288)	(27 288)
Proceeds on settlement of employee share options	35	–	–	–	–	13 159	13 159
Tax effect on share options		–	–	–	–	45 991	45 991
Preference shares repurchased		–	(22 896)	–	–	(791)	(23 687)
Balance at 28 February 2017		**5 649 020**	**150 998**	**–**	**(11 736)**	**10 329 731**	**16 118 013**
Total comprehensive income for the year		**–**	**–**	**3 158**	**(15 001)**	**4 470 717**	**4 458 874**
Ordinary dividend		**–**	**–**	**–**	**–**	**(1 531 483)**	**(1 531 483)**
Preference dividend		**–**	**–**	**–**	**–**	**(12 023)**	**(12 023)**
Employee share option scheme: value of employee services		**–**	**–**	**–**	**–**	**36 709**	**36 709**
Shares acquired for employee share options at cost	35	**–**	**–**	**–**	**–**	**(224 918)**	**(224 918)**
Proceeds on settlement of employee share options	35	**–**	**–**	**–**	**–**	**73 787**	**73 787**
Tax effect on share options		**–**	**–**	**–**	**–**	**11 648**	**11 648**
Preference shares repurchased		**–**	**(38 195)**	**–**	**–**	**(734)**	**(38 929)**
Balance at 28 February 2018		**5 649 020**	**112 803**	**3 158**	**(26 737)**	**13 153 434**	**18 891 678**
Notes		19	19	20	20		

R'000	Ordinary share capital and premium	Preference share capital and premium	Retained earnings	Total
COMPANY				
Balance at 29 February 2016	5 649 020	173 894	16 370	5 839 284
Total comprehensive income for the year	–	–	1 322 331	1 322 331
Ordinary dividend	–	–	(1 306 584)	(1 306 584)
Preference dividend	–	–	(15 719)	(15 719)
Preference shares repurchased	–	(22 896)	(791)	(23 687)
Balance at 28 February 2017	**5 649 020**	**150 998**	**15 607**	**5 815 625**
Total comprehensive income for the year	**–**	**–**	**1 643 831**	**1 643 831**
Ordinary dividend	**–**	**–**	**(1 532 058)**	**(1 532 058)**
Preference dividend	**–**	**–**	**(12 023)**	**(12 023)**
Preference shares repurchased	**–**	**(38 195)**	**(734)**	**(38 929)**
Balance at 28 February 2018	**5 649 020**	**112 803**	**114 623**	**5 876 446**
Notes	19	19		

Consolidated statement of cash flows

Year ended 28 February 2018

R'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cash flow from operating activities					
Cash flow from operations	32	**13 673 845**	10 890 205	**1 649 669**	1 318 513
Income taxes paid	33	**(1 741 445)**	(1 387 990)	**–**	–
		11 932 400	9 502 215	**1 649 669**	1 318 513
Cash flow from investing activities					
Purchase of property and equipment	13	**(686 499)**	(783 054)	**–**	–
Proceeds from disposal of property and equipment		**32 340**	9 075	**–**	–
Purchase of intangible assets	14	**(142 943)**	(217 052)	**–**	–
Movement in investment in subsidiaries		**–**	–	**64 079**	28 102
Investment in term deposit investments		**(3 153 000)**	(7 011 184)	**–**	–
Redemption of term deposit investments		**7 159 000**	7 599 216	**–**	–
Acquisition of held-to-maturity investments		**(12 904 350)**	(7 619 880)	**–**	–
Redemption of held-to-maturity investments		**6 650 176**	5 927 866		–
Acquisition of available-for-sale financial assets		**–**	(100 000)		–
Movement in money market unit trusts		**(13 896)**	5 925	**–**	–
Acquisition of interest in associates		**(128 658)**	–	**(128 658)**	–
		(3 187 830)	(2 189 088)	**(64 579)**	28 102
Cash flow from financing activities					
Dividends paid	34	**(1 544 900)**	(1 323 034)	**(1 545 475)**	(1 323 034)
Preference shares repurchased	19	**(38 929)**	(23 687)	**(38 929)**	(23 687)
Issue of institutional bonds and other funding		**500 000**	774 070		–
Redemption of institutional bond and other funding		**(1 110 000)**	(2 207 897)		–
Realised loss on settlement of employee share options less participants' contributions	35	**(151 131)**	(14 129)	**–**	–
		(2 344 960)	(2 794 677)	**(1 584 404)**	(1 346 721)
Net increase in cash and cash equivalents		**6 399 610**	4 518 450	**686**	(106)
Cash and cash equivalents at the beginning of the year		**18 670 367**	14 151 917	**2 107**	2 213
Cash and cash equivalents at the end of the year	4	**25 069 977**	18 670 367	**2 793**	2 107

Notes to the annual financial statements

Year ended 28 February 2018

1. General information

1.1 Nature of business

The group's main business is that of a bank controlling company as envisaged in the Banks Act, 1990. The group's subsidiaries conduct retail banking.

1.2 Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the statements of financial position, income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto.

The group's earnings attributable to shareholders amounted to R4 470.7 million (2017: R3 806.9 million).

1.3 Directors and secretary

Information relating to the directors and company secretary is in chapter 5 of the integrated annual report.

1.4 Group details

The group's place of domicile and country of incorporation is the Republic of South Africa and it has a primary listing on the JSE.

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

2. Accounting policies

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

2.1 Basis of preparation

The group's consolidated and company's separate annual financial statements are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, and the South African Companies Act.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at fair value through profit or loss, as well as available-for-sale securities carried at fair value through other comprehensive income.

Refer to note 2.20 for new standards and interpretations not yet adopted.

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

2. Accounting policies (continued)

2.2 Basis of consolidation

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

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

When the group ceases to have control of a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Currently the group does not have non-controlling interests as all subsidiaries are wholly owned.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of 20% and 50% of the voting rights of the associate. Where the group holds less than 20%, other indicators, such as the right to presentation on decision making boards or committees are considered. The group's investment in associates includes the difference in initial cost versus our share of net assets acquired and any accumulated impairment loss.

Investments in associates are initially recognised and carried at cost at company level and at group level and are accounted for according to the equity method. Under the equity method, on initial recognition the investment in associates are recognised at cost, and the carrying amount is increased or decreased to recognise the group's share of the post-acquisition profits or losses in profit or loss, and the group's share of movements in other comprehensive income in other comprehensive income. Distributions received from the associate will reduce the carrying amount of the investment.

Refer to 2.14.1 – Foreign currency translation of foreign associates.

In the event that the group's share of losses in an investment in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the respective associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

The group determines at each reporting date whether there is objective evidence if any investment in the respective associates is impaired. If this is the case, the difference between the recoverable amount of the said associate and its carrying value is recognised in profit or loss.

2.3 Cash, cash equivalents and money market funds

Cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition, including: cash, balances with central banks, resale agreements, treasury bills and other eligible bills, amounts due from banks, non-bank money market investments, fixed and notice deposits with original maturities less than 3 months and short-term government securities. Cash and cash equivalents are stated at cost, which approximates fair value due to the short-term nature of these instruments.

Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of less than 3 months are included under cash and cash equivalents. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

Mandatory reserve deposits with the South African Reserve Bank (SARB) must be maintained at the average required by the SARB over a 1-month period and are non-interest-bearing. These deposits may be used to manage significant intra and inter day cash outflows but are not considered as available for normal cash planning purposes and 70% of the balance is available without requiring prior regulatory approval.

2.4 Financial instruments

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

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

Management determines the categorisation of its financial instruments at initial recognition.

2.4.1 Financial assets

(a) Financial instruments designated at fair value through profit or loss

This category has 2 subclasses: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is categorised as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedges.

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

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (2.16.4), and are included in the income statement.

(b) Held-to-maturity investments

Financial assets at amortised cost are held-to-maturity, non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity.

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

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

(c) Loans and receivables

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

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

2. Accounting policies (continued)

2.4 Financial instruments (continued)

2.4.1 *Financial assets (continued*

(c) Loans and receivables (continued)

They arise when the group provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are:

(i) loans and advances to clients that are recognised when funds are advanced to the borrowers and are carried at amortised cost using the effective interest rate method; and

(ii) fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than 3 months, deposit investments with the contractual option to call the funds after a period longer than 3 months and deposits that have effective contractual notice periods greater than 3 months. The investments are made with the intention to hold them to maturity and collect the contractual cash flows. Fixed and term notice deposits are carried at amortised cost using the effective interest rate method.

(d) Available-for-sale investment

An equity investment is measured at fair value with unrealised gains or losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Dividends earned while holding available-for-sale financial investments are recognised in the income statement when the right to receive payment has been established.

2.4.2 *Financial liabilities*

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

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

2.4.3 *Derivative financial instruments and hedging activities*

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently 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. Cross-currency swaps are valued on a discounted cash flow basis using foreign exchange market curves appropriate for the relevant swap rates. Quoted market prices are used where available and estimates are derived from quoted prices where required.

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

The group designates certain derivatives as:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) economic hedges if not qualifying in terms of the accounting criteria classified as fair value through profit or loss.

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

Treatment of hedges qualifying as cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within interest expense. The gain or loss relating to the effective portion of cross currency interest rate swaps hedging foreign currency variable rate borrowings is recognised in the income statement within other operating expenses as well as interest expense. The gain or loss relating to the ineffective portion is recognised in the income statement within movement in financial instruments held at fair value through profit or loss disclosed under operating expenses. Refer to note 42 for separate disclosure.

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

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in shareholders' equity are shown in note 20.

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

Where applicable 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.

2. Accounting policies (continued)

2.5 Impairment of advances

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

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

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

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

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

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

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

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

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

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

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

2.5.1 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 from 3 months onwards are handed over for collection and substantially written off. The estimated recoveries are then discounted at the contractual rates and recognised in gross loans and advances.
- Upon write-off, the accrual of interest income on the original term of the advance is discontinued.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default (LGD), is taken into account in calculating the impairment allowance.

Loans and advances with outstanding balances that would otherwise have been reflected as past due are included in loans and advances not past due, due to rescheduled payment terms. The rescheduled loans are subject to continuous individual or collective impairment assessment. Loans that were past due and have been rescheduled within the past 6 months are separately disclosed and are subject to stricter impairment assessment than loans rescheduled more than 6 months ago. Past due rescheduled loans cease to be disclosed separately if they are up to date 6 months after being rescheduled. If a rescheduled loan goes into arrears, it forms part of the loans in arrears classification.

2.5.2 Incurred but unidentified impairment

In addition to the impairment estimated for assets with recognised objective evidence of impairment, an estimate is made for impairments associated with those assets in the statement of financial position that are impaired, but for which objective evidence is not yet available:
- The impairment calculation utilises the results of the statistical analyses referred to above to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. The emergence period is defined as the experience of the length of time that it takes for objective evidence to become apparent after the asset has become impaired.
- In considering the occurrence of a loss event over the life of a loan, it is assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.
- For a portfolio of loans in a particular month, most of the provision is recognised in the early stages of the contractual period, as the outstanding loan balances are larger.

Loans and advances impaired on this basis are reflected as loans not past due.

2.5.3 Loan write-offs

Clients (and the related impairment allowance accounts) are substantially written off at the earliest of when they are in arrears from 3 months onwards or legal hand-over occurs. The estimated recoveries on term loans discounted at the contractual rates are recognised in gross loans and advances as expected recoveries receivable.

2. Accounting policies (continued)

2.6 Interest-free loans granted

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

2.7 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. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date.

2.8 Deferred tax

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

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

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

2.9 Property and equipment

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

Subsequent costs are included in the carrying assets' 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:

• Automated teller machines	10 years
• Banking application hardware	3 – 5 years
• Buildings	25 years
• Computer equipment	3 – 5 years
• Motor vehicles	5 years
• Office equipment	5 – 8 years

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

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

2.10 Computer software

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

Costs associated with developing and maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and systems products controlled by the group, and that will probably generate economic benefits beyond 1 year, are recognised as intangible assets. Other development expenditures are recognised as an expense as incurred.

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

• Banking application software	6 years
• Desktop application software	2 – 4 years
• Server software	3 – 5 years

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

2.11 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Share capital

2.12.1 Categories of share capital

Authorised share capital consists of:
- ordinary shares;
- non-redeemable, non-cumulative, non-participating preference shares; and
- compulsorily convertible or written off, non-redeemable, non-cumulative, non-participating preference shares.

2.12.2 Share issue costs

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

2.12.3 Dividends declared

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

2.12.4 Treasury shares

Where the company or other members of the group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

2.12.5 Unissued shares

At the annual general meeting an amount of 5% (2017: 5%) of the issued ordinary share capital at the time of the meeting as well as all unissued non-redeemable, non-cumulative, non-participating preference shares and all compulsorily convertible or written off, non-redeemable, non-cumulative, non-participating preference shares were placed under the control of the directors until the next annual general meeting.

2. Accounting policies (continued)

2.13 Employee benefits

2.13.1 Pension obligations

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

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

2.13.2 Share-based compensation

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

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

2.13.3 Performance incentive scheme

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

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

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

2.14 Foreign currency translation

2.14.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African Rand (Rand), which is the group's, 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. The investment in associates is translated to South African Rand at the exchange rate prevailing at the reporting date. The equity-accounted earnings are translated to Rand at the average exchange rate for the period. Gains or losses on translation are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve (FCTR).

2.14.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into Rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss. Exchange gains and losses on balances of a foreign operation are taken to other comprehensive income.

2.15 Net insurance receivable

Insurance contracts are defined as those contracts or agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the issuer of the insurance contract to pay significant additional benefits as envisaged at the inception of the contract. Such contracts remain designated as insurance contracts until all rights and obligations are extinguished or expire.

The group has provided capital to the third party cell captive and allows the group to benefit from the ring-fenced insurance business. The cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell.

The cell captive arrangement exposes the group to insurance risk on the reinsured and retained insurance risk components in the cell captive. The group's insurance risk on the reinsured component relates to the risk that the reinsurer will fail to honour its obligations under the reinsurance agreement. The group's insurance risk on the retained component relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

With respect to the retained insurance risk, judgement is required in determining the actuarial movements of the insurance contract liabilities held by the cell captive. There is uncertainty with regards to the claims that will be made by customers, which is dependent on a number of unpredictable factors. The group makes this judgement based on the best estimate and in accordance with Standards of Actuarial Practice ("SAP") 104 principles.

The net insurance receivable associated with the investment in the cell captive arrangement is disclosed as a non-current asset.

2.16 Revenue recognition

2.16.1 Interest income and expenses

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

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

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

Loan origination fees that relate to the creation of a financial asset are amortised over the term of the loan on a effective interest rate basis.

2. Accounting policies (continued)

2.16 Revenue recognition (continued)

2.16.2 Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided.

Loan fee expenses are recognised when the services are received in the first and third party credit life insurance cells.

2.16.3 Transaction income and expenses

Transaction income and expenses are recognised on an accrual basis in the period in which the services are rendered.

Transaction fee income and expenses arise due to the use of the group's branch, automated teller machine (ATM) and Point-of-Sale (POS) networks, along with the various electronic banking channels that the group has, namely the banking app, unstructured supplementary service data (USSD) and internet banking platform.

2.16.4 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 the underlying instruments. Dividend income is recognised separately from other fair value movements.

2.16.5 Net insurance income

Net insurance income represents the movement before distributions paid to the group in the net insurance receivable and comprises insurance profits from the cell captive business after reinsurance.

2.17 Segment reporting

The executive management committee, headed by the CEO, has been identified by the group as the chief operating decision maker (CODM), which is responsible for assessing the performance and allocation of resources of the group.

The group reports a single segment, namely retail banking, within the South African economic environment. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

The CODM regularly reviews the operating results of the retail banking segment for which financial information is made available on a monthly basis and against which performance is measured and resources are allocated across the segment.

Within the segment are a number of products and services that the group derives its revenue from. These include:

- transactional banking services, of which transaction fee income is disclosed on the face of the consolidated income statement; and
- loan products that are granted to loan clients. There are 3 products granted by the segment, namely term loans, credit facilities and credit cards. Details of these loans are disclosed in note 7. Interest earned is disclosed in note 21.

Although the group operates within the South African economic environment, the group does hold an investment in Creamfinance, which is located in Cyprus with subsidiaries based in a number of European countries. Creamfinance is an associate over which the group does not have control, and the CODM does not review discrete financial information relating to this investment.

2.18 Leases

2.18.1 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.

2.18.2 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.

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

- Amendment to IAS 12 – Income Taxes (effective 1 March 2017)
- Amendment to IAS 7 – Cash Flow Statements (effective 1 March 2017)
- IAS 12 – Amendment to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 March 2017)

The implications of these statements have no impact on measurements of assets and liabilities at the previous year-end. Additional disclosure required by the amendment to IAS 7 has been included in notes 16 and 19.

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

Certain effective new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2018 or later periods but which the group has not early adopted, as follows:

Title	Impact
IFRS 17 – Insurance contracts (effective 1 March 2021) and the amendment to IFRS 4 (effective 1 March 2018)	Unknown The group has not yet assessed the impact IFRS 17 will have on the insurance liabilities contained within the net insurance receivable presented on the face of the statement of financial position.
IFRS 15: Revenue from contracts with customers and associated amendments to various other standards (effective 1 March 2018)	Low/Medium The group generates revenue from its transactional banking activities from which it earns transaction fees and interest income from loans advanced. In assessing the impact of IFRS 15 on the group, the activities that generate revenue were assessed in determining whether they fall within the scope of the new revenue standards. The group is in the process of finalising its assessment and impact analysis.
IFRS 16: Leases (effective 1 March 2019)	Medium/High IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise right-of-use assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. The group is assessing the requirements of IFRS 16 and consider the impact to be medium/high due to the changes of presentation of financial position on income statement.

2. Accounting policies (continued)

2.20 Standards, interpretations and amendments to published standards that are not yet effective (continued)

Title	Impact
Amendment to IFRS 7 – Financial Instrument Disclosures (effective 1 March 2018)	High As part of the group's assessment of the impact of IFRS 9, a disclosure project has been undertaken to assess the impact of IFRS 9. The preliminary findings of this review indicate that the impact will be high due to the significant increase in disclosure surrounding: • credit risk; and • market risk.
IFRS 9: Financial instruments and associated amendments (effective 1 March 2018)	High The group will apply IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 March 2018 will be adjusted for any differences in the carrying amounts of financial instruments. The group is in the process of finalising its detailed assessment of the impact of the application of IFRS 9 on its financial statements. The current findings indicate that there are no major deviations in the current classification of financial assets as they are largely in line with IFRS 9. There will also be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The new hedging rules are also not expected to impact the group. The group has identified that the most significant impact that IFRS 9 will have on the group relates to the expected credit loss (ECL) impairment model. The ECL project undertaken was broken up into 3 phases, namely: • planning and impact assessment; • design phase; and • quantification phase. The group is in the process of finalising the quantification phase of the ECL project. The impact of IFRS 9 on the group is expected to be finalised within Q1 of financial year 2019 and will be communicated to the market prior to the group releasing its interim results.

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Impairment losses on loans and advances

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experienced.

All impaired loans and advances are reviewed on a monthly basis and any changes to the amount and timing of the expected future cash flows discounted at the original effective interest rate, compared to previous estimates, will result in either a charge or release for impairment of loans and advances in the income statement.

In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. An estimate is made for impairment associated with those assets in the statement of financial position that are impaired but for which objective evidence is not yet available, by assessing the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period. An emergence period of 3 months is used for the performing loan book, with a longer emergence period used for the rescheduled loan book. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 2.4 for the accounting policy regarding the impairment of advances and note 29.1 for credit risk management, and audited sections of the CFO report.

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

R'000	2018	2017
Expected default rates increase by 5%	**58 035**	63 001
Expected default rates decrease by 5%	**(58 172)**	(63 592)

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

4. Cash, cash equivalents and money market funds

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cash on hand	3 472 067	3 091 691	–	–
Bank balances	15 693 569	12 172 697	2 793	2 107
Resale agreements: Corporate	403 672	756 937	–	–
Resale agreements: Banks	4 363 010	–	–	–
Treasury bills	–	726 936	–	–
Central bank balances				
Debentures	–	1 001 323	–	–
Mandatory reserve deposits with central bank	1 137 659	920 783	–	–
Cash and cash equivalents	25 069 977	18 670 367	2 793	2 107
Money market unit trusts[1]	20 751	6 855	–	–
Total cash, cash equivalents and money market funds	25 090 728	18 677 222	2 793	2 107
Maximum exposure to credit risk	25 090 728	18 677 222	2 793	2 107
Current	25 090 728	18 677 222	2 793	2 107

The carrying value of cash and cash equivalents approximates fair value.

[1] Money market unit trusts are liquid assets and are taken into consideration for cash planning purposes.

5. Held-to-maturity investments

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest-bearing instruments[1]				
Balance at the beginning of the year	5 326 724	3 634 710	–	–
Additions	13 507 629	7 619 880	–	–
Maturities	(7 053 419)	(5 927 866)	–	–
Total investments at amortised cost[2]	11 780 934	5 326 724	–	–
Maximum exposure to credit risk	11 780 934	5 326 724	–	–
Current	11 780 934	5 326 724	–	–

[1] Interest-bearing instruments are unlisted instruments with a maturity greater than 3 months from date of acquisition. This figure comprises South African National Treasury bills (treasury bills), 99% (2017: 83%) of the balance and investments in Negotiable Certificates of Deposits issued by various banks, 1% (2017: 17%) of the balance (refer to note 29.1 for ratings).

[2] The liquid asset requirement of R2 277.5 million (2017: R1 843.5 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills. The intention is to hold all treasury bills to full maturity.

6. Term deposit investments

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Term deposit investments				
Balance at the beginning of the year	6 600 749	7 188 781	–	–
Additions	3 627 765	7 011 184	–	–
Disposals	(7 700 183)	(7 599 216)	–	–
Total term deposit investments[1]	2 528 331	6 600 749	–	–
Maximum exposure to credit risk	2 528 331	6 600 749	–	–
Current	2 528 331	6 600 749	–	–

[1] All balances are due by banks and have original maturity dates of more than 3 months but contractually less than 1 year. Investments comprise term-to-notice and fixed term instruments (refer to note 29.1 for ratings).

7. Net loans and advances

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Maturity analysis				
Current (less than 1 year)	16 718 014	15 360 083	–	–
Demand to 1 month	2 132 062	1 995 288	–	–
1 to 3 months	2 870 556	2 636 689	–	–
3 months to 1 year	11 715 396	10 728 106	–	–
Non-current (more than 1 year)	31 601 961	30 494 018	–	–
1 to 2 years	13 484 033	12 379 809	–	–
2 to 5 years	17 645 690	17 401 738	–	–
More than 5 years	472 238	712 471	–	–
Total	48 319 975	45 854 101	–	–
Loan origination fees	(677 485)	(718 744)	–	–
Gross loans and advances	47 642 490	45 135 357	–	–
Term loans and credit facility	45 628 376	44 545 481	–	–
Credit card	2 014 114	589 876	–	–
Provision for doubtful debts	(5 828 095)	(5 930 377)	–	–
Net loans and advances[1]	41 814 395	39 204 980	–	–
Maximum exposure to credit risk				
Net loans and advances	48 319 975	45 854 101	–	–
Retail loan commitments[2]	796 274	457 610	–	–
Maximum exposure to credit risk	49 116 249	46 311 711	–	–

[1] The group currently does not hold any loans and advances that are past due but not impaired.

[2] Retail loan commitments totalling R796.3 million (2017: R457.6 million) are not included in the maturity analysis. The commitments are a result of undrawn credit facility and credit card amounts. 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 48% (2017: 52.1%) of these commitments is expected to be drawn down within 1 month.

7. Net loans and advances (continued)

The following terminology is used by the group when discussing the credit quality of loans and advances:

Loan status	Description
Up-to-date	Clients that are fully up to date with their original contractual obligations or amended contractual obligations that are rehabilitated, post rescheduling, are classified as up-to-date.
Arrears	Past due loans and advances reflect the total outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid against the contractual payment date, that is 1 day past the contractual payment date but not more than 3 months in arrears. The arrears balance therefore includes rescheduled loans when the adjusted instalment was not paid.
Rescheduling	Rescheduling refers to an amendment of the original terms of the loan contract, as formally agreed between the group and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact the group when wanting to reschedule their loans due to changes in their circumstances. No initiation fee is charged on a rescheduled loan as no new credit is granted.
Rehabilitated	Clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post-rescheduling. This is supported by statistical analysis.
Rescheduled from up-to-date not rehabilitated	These are loans and advances relating to clients that were fully up to date with their original contractual obligations, however have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payment under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made consecutive payments for 6 months under the amended contract.
Rescheduled from arrears not rehabilitated	These are loans and advances relating to clients that were in arrears and were subsequently rescheduled and have made payment under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended contract.
Expected recoveries receivable	The net present value of expected future recoveries on loans written off.
Write-off	The earlier of loan balances that have a legal status, e.g. debt review or deceased, handed over or are 3 months or more in arrears, are substantially written off.

Analysis of net loans and advances by status – 2018

GROUP								
R'000	Performing book					Non-performing book		
	Up-to-date	Rescheduled from up-to-date not rehabilitated	Sub-total	Rescheduled from arrears not rehabilitated	Sub-total	Arrears	Expected recoveries receivable	Total
Gross loans and advances	**41 673 695**	**1 085 352**	**42 759 047**	**1 277 234**	**44 036 281**	**2 699 936**	**906 273**	**47 642 490**
Cumulated provision	**(3 234 766)**	**(188 907)**	**(3 423 673)**	**(649 648)**	**(4 073 321)**	**(1 754 774)**	**–**	**(5 828 095)**
	38 438 929	**896 445**	**39 335 374**	**627 586**	**39 962 960**	**945 162**	**906 273**	**41 814 395**
Provision %	**7.8**	**17.4**	**8.0**	**50.9**	**9.2**	**65.0**		**12.2**

Analysis of net loans and advances by status – 2017

GROUP								
R'000	Performing book					Non-performing book		
	Up-to-date	Rescheduled from up-to-date not rehabilitated	Sub-total	Rescheduled from arrears not rehabilitated	Sub-total	Arrears	Expected recoveries receivable[(1)]	Total
Gross loans and advances	39 084 980	1 087 996	40 172 976	1 582 527	41 755 503	2 854 870	524 984	45 135 357
Cumulated provision	(3 024 728)	(166 384)	(3 191 112)	(820 757)	(4 011 869)	(1 918 508)	–	(5 930 377)
	36 060 252	921 612	36 981 864	761 770	37 743 634	936 362	524 984	39 204 980
Provision %	7.7	15.3	7.9	51.9	9.6	67.2		13.1

[(1)] *The net present value of expected recoveries receivable of R524 984 000 was included in the 2017 up-to-date (current) gross loans and advances balance.*

Credit quality of gross loans and advances shown in up to date

	GROUP	
R'000	2018	2017
Up-to-date – never rescheduled	**39 452 802**	36 624 152
Up-to-date – rescheduled from up-to-date and fully rehabilitated	**1 228 460**	1 529 180
Up-to-date – rescheduled from arrears and fully rehabilitated	**992 433**	931 648
	41 673 695	39 084 980

Analysis of provision for doubtful debts	Unidentified provision	Identified provision	Total
At 1 March 2016	3 742 990	1 388 615	5 131 605
Provision for doubtful debts raised	268 879	529 893	798 772
Balance at 28 February 2017	**4 011 869**	**1 918 508**	**5 930 377**
Provision for doubtful debts raised/(released)	**61 452**	**(163 734)**	**(102 282)**
Balance at 28 February 2018	**4 073 321**	**1 754 774**	**5 828 095**

	GROUP	
R'000	2018	2017
Ageing of gross arrears		
< 2 months	**2 233 354**	2 365 013
Between 2 and 3 months	**466 582**	489 857
> 3 months (expected recoveries receivable)	**906 273**	524 984
	3 606 209	3 379 854

The note must be read in conjunction with note 29.1 Credit risk and the audited sections of the CFO's report.

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

8. Other receivables

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Deposits	33 398	31 388	–	–
SARB settlement balance	211 710	587 540	–	–
Other receivables	334 316	115 271	5 285	7 321
Prepayments[1]	142 403	137 280	367	322
Total other receivables	**721 827**	**871 479**	**5 652**	**7 643**
Current	718 349	869 341	5 652	7 643
Non-current	3 478	2 138	–	–
Maximum exposure to credit risk	**721 827**	**871 479**	**5 652**	**7 643**

[1] *Prepayments refer to monthly rental paid in advance and client cards.*

9. Net insurance receivable[1]

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Opening balance	255 360	–	–	–
Initial investment	–	3 000	–	–
Net insurance income	873 524	261 883	–	–
Interest on investment (note 21)	22 214	–	–	–
Distribution paid to the group	(905 894)	(9 523)	–	–
	245 204	255 360	–	–
Net insurance income				
Residual from cell captive business after reinsurance[2]	873 524	261 883	–	–
Net insurance income	**873 524**	**261 883**	**–**	**–**

[1] *The amount receivable from the insurer represents the right to the residual interest in the cell captive reduced by distributions declared by the cell captive insurer on the specific class of preference shares held by the group.*
[2] *The residual from the cell captive business after insurance represents net results after premiums received, claims paid and reinsurance paid. The claims paid from the cell captive received by the group are shown as part of bad debts recovered in note 23.*

10. Derivative assets

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Derivatives[1]	129	58 113	–	–
Current	129	54 900	–	–
Non-current	–	3 213	–	–

[1] *Refer to notes 41 and 42 for more information on derivatives.*

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

11. Available-for-sale financial assets

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Unlisted securities[1]				
Balance at the beginning of the year	100 000	100 000	–	–
Total available-for-sale financial assets	**100 000**	**100 000**	**–**	**–**

[1] *Capitec Bank is a participant in a consortium that recapitalised African Bank. The other members of the consortium comprise the Public Investment Corporation and 5 other South African banks.*

12. Interest in subsidiaries and associates

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest in subsidiaries				
Investment in unlisted subsidiaries at cost[1]	–	–	5 766 232	5 804 426
Loans (from)/to subsidiaries[2]	–	–	(14 751)	11 134
Total interest in subsidiaries	**–**	**–**	**5 751 481**	**5 815 560**

Subsidiaries	Domicile	Holding	Nature of business
Capitec Bank Limited	South Africa	100%	Banking
Keynes Rational Corporate Services Proprietary Limited	South Africa	100%	Dormant
Capitec Properties Proprietary Limited	South Africa	100%	Property
Keymatrix Proprietary Limited	South Africa	100%	Dormant
Capitec Bank Holdings Share Trust	South Africa	–	Share incentive trust

[1] *All holdings are in the ordinary and preference share capital of the subsidiaries.*
[2] *Interest-free group loans with no written terms are managed as part of the company's investment in subsidiaries and are carried at cost net of impairment.*

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest in associates				
Opening balance	–	–	–	–
Interest acquired	128 658	–	128 658	–
Foreign currency translation reserve	3 158	–	–	–
Share of profit or loss[1]	2 536	–	–	–
Total interest in subsidiaries	**134 352**	**–**	**128 658**	**–**

Associates	Domicile	Holding	Nature of business
Creamfinance Holding Ltd*	Cyprus	19.43%	Lending
Praelexis Proprietary Limited[2]	South Africa	33.33%	Artificial Intelligence

* André du Plessis, chief financial officer of the company, was elected to the board of Creamfinance.

[1] *Profits or loss relates to the period 1 June 2017 to 31 December 2017.*
[2] *The investment in Praelexis Proprietary Limited was effective from 26 February 2018.*

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

12. Interest in subsidiaries and associates (continued)

Creamfinance Holding Ltd

Reconciliation to carrying amounts

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Non-current assets	104 886	–	–	–
Current assets	615 250	–	–	–
Non-current liabilities	(317 201)	–	–	–
Current liabilities	(295 501)	–	–	–
Net assets at 100%	**107 434**	–	–	–
The group's share of net assets	20 874	–	–	–
Difference in initial cost versus our share of net assets acquired	88 478	–	–	–
Carrying amount of investment in associates	**109 352**	–	–	–

13. Property and equipment

R'000	Land and buildings	Computer equipment	Office equipment and vehicles	Total
2018				
Opening net book value	109 622	772 193	641 580	1 523 395
Additions	57 843	316 931	311 725	686 499
Disposals	(21 024)	(3 524)	(10 732)	(35 280)
Depreciation charge	(682)	(222 859)	(196 731)	(420 272)
Net book value at the end of the year	145 759	862 741	745 842	1 754 342
Cost	145 993	1 848 411	1 355 040	3 349 444
Accumulated depreciation	(234)	(985 670)	(609 198)	(1 595 102)
Net book value at the end of the year	145 759	862 741	745 842	1 754 342
Non-current	145 759	862 741	745 842	1 754 342
2017				
Opening net book value	98 606	531 961	480 241	1 110 808
Additions	11 746	439 130	332 178	783 054
Disposals	–	(11 102)	(919)	(12 021)
Depreciation charge	(730)	(187 796)	(169 920)	(358 446)
Net book value at the end of the year	109 622	772 193	641 580	1 523 395
Cost	110 899	1 629 492	1 529 146	3 269 537
Accumulated depreciation	(1 277)	(857 299)	(887 566)	(1 746 142)
Net book value at the end of the year	109 622	772 193	641 580	1 523 395
Non-current	109 622	772 193	641 580	1 523 395

14. Intangible assets

Computer software[1]

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cost	782 100	604 969	–	–
Accumulated amortisation	(502 154)	(362 321)	–	–
Opening net book value	279 946	242 648	–	–
Additions	142 943	217 052	–	–
Disposals	–	(1 223)	–	–
Amortisation charge	(139 878)	(178 531)	–	–
Net book value at the end of the year	283 011	279 946	–	–
Cost	587 935	782 100	–	–
Accumulated amortisation	(304 924)	(502 154)	–	–
Net book value at the end of the year	283 011	279 946	–	–
Non-current	283 011	279 946	–	–

[1] *Computer software primarily comprises the main banking infrastructure applications, which are purchased from our respective vendors.*

15. Deferred income tax asset

R'000 (GROUP)	Provisions, accruals and share-based payments	Cash flow hedge	Capital allowances	Prepayments	Total
2018					
Balance at the beginning of the year	511 891	4 464	(39 494)	(16 932)	459 929
Income statement charge	(36 603)	–	(5 596)	(2 950)	(45 149)
Debited directly to equity	(23 787)	–	–	–	(23 787)
Credited to equity through other comprehensive income	–	5 834	–	–	5 834
Balance at the end of the year[1]	451 501	10 298	(45 090)	(19 882)	396 827
2017					
Balance at the beginning of the year	423 219	(23 595)	(37 500)	(13 603)	348 521
Income statement charge	35 944	–	(1 994)	(3 329)	30 621
Credited directly to equity	52 728	–	–	–	52 728
Credited to equity through other comprehensive income	–	28 059	–	–	28 059
Balance at the end of the year[1]	511 891	4 464	(39 494)	(16 932)	459 929

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2017: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.*

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

16. Retail deposits and wholesale funding

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
By maturity				
Within 1 month	**36 050 140**	30 982 192	–	–
1 to 3 months	**2 332 182**	1 763 959	–	–
3 months to 1 year	**9 297 982**	7 227 935	–	–
1 to 2 years	**3 463 227**	3 012 179	–	–
2 to 5 years	**6 680 967**	5 052 955	–	–
More than 5 years	–	–	–	–
Deposits[1]	**57 824 498**	48 039 220	–	–
Wholesale funding				
By maturity				
Within 1 month	**93 504**	77 712	–	–
1 to 3 months	**660 627**	1 091 091	–	–
3 months to 1 year	**1 055 117**	990 450	–	–
1 to 2 years	**2 196 385**	1 472 319	–	–
2 to 5 years	**2 145 452**	3 653 353	–	–
More than 5 years	**54 641**	258 126	–	–
Bonds[1]	**6 205 726**	7 543 051	–	–
By nature				
Retail funding				
Retail call savings	**34 908 877**	30 116 518	–	–
Retail fixed deposits	**22 915 621**	17 922 702	–	–
	57 824 498	48 039 220	–	–
Wholesale funding[3]				
Subordinated debt – unlisted bonds	**552 889**	755 921	–	–
Subordinated debt – listed bonds[2]	**1 928 971**	1 929 271	–	–
Listed senior bonds[2]	**2 738 062**	3 169 928	–	–
Unlisted negotiable instruments	**885 622**	863 812	–	–
Wholesale[5]	**100 182**	824 119	–	–
	6 205 726	7 543 051	–	–
Total retail deposits and wholesale funding	**64 030 224**	55 582 271	–	–
Amounts payable on maturity of the funding[4]	**62 279 685**	60 066 125	–	–

Description	Nominal amount	Issue date	Term	Rate
Subordinated debt analysis				
Subordinated debt – unlisted bonds – floating rate	R44 million	31/10/2011	7 years	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	06/07/2012	7 years	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	06/09/2011	7 years	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	01/02/2012	7 years	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	01/02/2012	7 years	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	23/08/2012	7 years	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	23/08/2012	7 years	R204 government bond plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	14/12/2012	7 years	3-month JIBAR plus 4.49%

(1) All deposits and bonds are unsecured.

(2) Comprises notes listed on Capitec Bank's domestic medium-term note (DMTN) programme registered on the JSE's interest rate board.

(3) Wholesale funding issued at variable rates is hedged through interest rate swap agreements as set out in notes 20 and 42. The nominal value of hedged funding consists of:

Subordinated debt – unlisted bonds	*R544 million*
Subordinated debt – listed bonds	*R1 122 million*
Listed senior bonds	*R1 750 million*
Unlisted negotiable instruments	*R350 million*

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

(5) On 26 February 2018 a foreign denominated loan valued at R343.5 million denominated in USD matured. No further foreign denominated loans were entered into during the financial year. Refer to note 20 for further disclosure of the cash flow hedge reserve balance.

(6) Reconciliation of movements in cash flows arising from financing activities.

	Subordinated debt – unlisted	*Subordinated debt – listed*	*Senior listed bonds*	*Total*
Opening balance at 1 March 2017	*755 921*	*1 929 271*	*3 169 928*	*5 855 120*
Instruments issued	*–*	*–*	*500 000*	*500 000*
Instruments redeemed	*(200 000)*	*–*	*(910 000)*	*(1 110 000)*
Interest expense	*77 370*	*220 082*	*283 035*	*580 487*
Swap interest	*1 512*	*(1 586)*	*(13 540)*	*(13 614)*
Interest paid	*(81 914)*	*(218 796)*	*(291 361)*	*(592 071)*
Balance at 28 February 2018	***552 889***	***1 928 971***	***2 738 062***	***5 219 922***

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

17. Other liabilities

R'000	Group 2018	Group 2017	Company 2018	Company 2017
Trade payables	**938 648**	562 811	**670**	33
Dividends payable	**8 258**	9 652	**8 258**	9 652
Accruals	**766 739**	711 154	**–**	–
Share appreciation rights (note 40)	**200 276**	217 033	**–**	–
Total other liabilities	**1 913 921**	1 500 650	**8 928**	9 685
Current	**1 571 976**	1 125 325	**8 928**	9 685
Non-current	**341 945**	375 325	**–**	–

18. Provisions

R'000	Group 2018	Group 2017	Company 2018	Company 2017
Performance incentive scheme[(1)]				
Balance at the beginning of the year	**81 024**	107 905	**–**	–
Addition	**46 107**	44 053	**–**	–
Used during the year	**(60 296)**	(70 934)	**–**	–
Balance at the end of the year	**66 835**	81 024	**–**	–
Non-current	**66 835**	81 024	**–**	–

[(1)] *Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share and, in order to foster a long-term approach by management, the bonus is paid out over a 3-year period. The bonuses that have been earned and that will be paid out in the 2020 and 2021 financial years are included in provisions. The bonus to be paid in the 2019 financial year is included in accruals.*

19. Share capital and premium

R'000	Group 2018	Group 2017	Company 2018	Company 2017
Authorised				
Ordinary shares				
500 000 000 shares of R0.01 each	**5 000**	5 000	**5 000**	5 000
Non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Loss absorbent preference shares (conversion)[(1)]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
Loss absorbent preference shares (write-off)[(1)]				
100 000 000 shares of R0.01 each	**1 000**	1 000	**1 000**	1 000
	8 000	8 000	**8 000**	8 000
Issued[(2)]				
115 626 991 (2017: 115 626 991) shares of R0.01 each at par	**1 156**	1 156	**1 156**	1 156
Share premium	**5 647 864**	5 647 864	**5 647 864**	5 647 864
Ordinary share capital and premium	**5 649 020**	5 649 020	**5 649 020**	5 649 020
1 249 707 (2017: 1 672 844) shares of R0.01 each at par	**12**	17	**12**	17
Share premium	**112 791**	150 981	**112 791**	150 981
Non-redeemable, non-cumulative, non-participating preference share capital and premium[(3)]	**112 803**	150 998	**112 803**	150 998
Total issued share capital and premium[(3), (4), (5)]	**5 761 823**	5 800 018	**5 761 823**	5 800 018

[(1)] *This class complies with bank regulatory requirements that capital instruments should be loss absorbent.*

[(2)] *All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 423 137 (2017: 253 660) preference shares with a value of R38.2 million (par and premium) (2017: R22.9 million) were repurchased and cancelled during the year. This was done as they no longer qualified as regulatory capital in terms of the regulations relating to banks.*

[(3)] *The preference shares carry a coupon rate of 83.33% of the prime rate on a face value of R100 per share. The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 56.45% (2017: 41.69%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*

[(4)] *During the year a loss of R151.1 million (R108.8 million after tax) (2017: R14.1 million, R10.15 million after tax) was realised on settlement of share options as reflected in the statement of changes in equity.*

[(5)] *5 781 350 (2017: 5 781 350) of the unissued ordinary shares and 100% of the non-redeemable, non-cumulative, non-participating preference shares (including the compulsory convertible and write-off classes) that were placed under the control of the directors until the next annual general meeting remained at year-end.*

[(6)] *Reconciliation of movements in cash flows arising from financing activities.*

	Preference shares – Company and Group
Opening balance at 1 March 2017	*150 998*
Capital	*160 650*
Dividend paid with regard to 2017	*(9 652)*
Premium repurchases	*734*
Preference shares repurchased	*(38 929)*
Balance at 28 February 2018	*112 803*
Capital	*107 510*
Dividend expense accrued for 2018	*12 023*
Dividend paid with regard to 2018	*(6 730)*

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

20. Cash flow hedge reserve and foreign currency translation reserve

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Balance at the beginning of the year	(11 736)	64 147	–	–
Amount recognised in comprehensive income during the year	59 116	(211 809)	–	–
Amount reclassified from comprehensive income to profit and loss for the year	(79 951)	107 867	–	–
	(32 571)	(39 795)	–	–
Deferred tax recognised in comprehensive income during the year	5 834	28 059	–	–
Balance at the end of the year[1]	**(26 737)**	**(11 736)**	**–**	**–**
Foreign currency translation reserve				
Balance at the beginning of the year	–	–		
Amount recognised in comprehensive income during the year	3 158	–		
Balance at the end of the year[2]	**3 158**	**–**		

[1] The hedging reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items comprise floating rate DMTN bonds, a bilateral USD denominated floating rate loan, unlisted floating rate subordinated debt, a Rand denominated bilateral loan and negotiable floating rate notes (FRNs). Refer to note 42 for additional disclosure.

[2] The foreign currency translation reserve relates to the gain or loss on translation of the group's investment in a foreign associate.

21. Net lending, investment and insurance income

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest income				
Loans and advances	12 439 709	12 389 250	–	–
Loan origination fees	775 807	836 080	–	–
Non-bank money market placements	893	178	215	126
Money market funds and term deposit investments	1 522 756	1 288 157	–	–
Treasury bills	21 972	30 986	–	–
Bank balances	6 294	10 095	–	–
Resale agreements	79 658	18 331	–	–
Debentures	1 517	4 116	–	–
Interest-bearing instruments	625 851	357 234	–	–
Total interest income	**15 474 457**	**14 934 427**	**215**	**126**
Loan fee income				
Monthly service fee	919 328	874 938	–	–
Net insurance income[1]	873 524	261 883	–	–
Total loan fee and insurance income	**1 792 852**	**1 136 821**	**–**	**–**
Total lending, investment and insurance income	**17 267 309**	**16 071 248**	**–**	**–**
Interest expense				
Retail savings	(1 626 026)	(1 373 051)	–	–
Retail fixed deposits	(1 813 130)	(1 287 741)	–	–
Other unlisted wholesale	(79 824)	(95 045)	–	–
Subordinated debt	(297 452)	(338 860)	–	–
Domestic Medium Term Note	(283 035)	(352 218)	–	–
Negotiable deposits	(82 468)	(102 844)	–	–
Other	(2 514)	(2 062)	–	–
Total interest expense	**(4 184 449)**	**(3 551 821)**	**–**	**–**
Loan fee expense	**(412 867)**	**(642 445)**	**–**	**–**
Total lending, investment and insurance expense	**(4 597 316)**	**(4 194 266)**	**–**	**–**
Net lending, investment and insurance income	**12 669 993**	**11 876 982**	**215**	**126**

[1] Refer to note 9.

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

22. Dividend income

Ordinary dividends	–	45	1 631 808	1 306 585
Preference dividends	–	–	12 023	15 719
Dividend income	–	45	1 643 831	1 322 304

23. Net provision for doubtful debts charge

Bad debts written off	6 662 691	5 447 481	–	–
Movement in provision for doubtful debt[(1)]	(102 282)	798 772	–	–
Bad debts recovered	(1 280 419)	(1 125 076)	–	–
Net provision charge	5 279 990	5 121 177	–	–

(1) *The movement in provision for doubtful debt is disclosed in note 7.*

24. Operating profit before tax

The following items are included in operating profit before tax:

Loss/(profit) on disposal of property, plant and equipment	2 940	2 946	–	–
Loss on scrapping of intangibles	–	1 223	–	–
Depreciation on property, plant and equipment	420 272	358 446	–	–
Amortisation of computer software	139 878	178 531	–	–
	563 090	541 146	–	–
Advertising and marketing	200 760	187 752	1 877	1 772
Bank charges	257 061	230 621	6	(15)
Consumables	239 619	191 905	38	257
Communications	204 573	177 751	–	–
Operating lease rentals				
Land and buildings	461 510	404 133	–	–
Office equipment	929	4 574	–	–
	462 439	408 707	–	–
Income from subletting	(2 224)	(3 409)	–	–
Auditor's remuneration				
Audit fees – current year	5 921	3 979	3	3
Other services	2 612	1 034	–	–
	8 533	5 013	3	3
Employee costs				
Salaries and bonus costs	2 995 857	2 537 036	–	–
Equity-settled share-based payment	36 709	42 030	–	–
Cash-settled share appreciation rights	107 567	147 797	–	–
Social security cost	99 344	71 722	–	–
Training cost	60 075	40 871	–	–
Training refund	(5 701)	(4 724)	–	–
	3 293 851	2 834 732	–	–

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

25. Income tax expense

Current tax	1 639 385	1 464 296	–	–
Deferred tax	45 149	(30 621)	–	–
Income tax expense	1 684 534	1 433 675	–	–
Effective tax rate (%)	27	27	–	–

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

Operating profit before tax	6 155 251	5 240 605	1 643 831	1 322 331
Tax calculated at a tax rate of 28%	1 723 470	1 467 369	460 273	370 253
Prior period over provision	(728)	(881)	–	–
Income not subject to tax[(1)]	(465)	(1 787)	(460 273)	(370 245)
Expenses not deductible for tax purposes[(2)]	–	344	–	–
Allowances not in income statement[(3)]	(37 525)	(31 295)	–	(8)
Movement in unutilised tax losses	(218)	(75)	–	–
Income tax expense	1 684 534	1 433 675	–	–
Estimated tax losses at year-end available for utilisation against future taxable income	10 088	10 629	237	–
Net calculated tax losses carried forward[(1)]	10 088	10 629	237	–
Tax relief calculated at current tax rates	2 825	2 976	66	–

(1) *This includes income other than foreign dividends exempt from tax in the form of the Pay as you Earn (PAYE) tax incentive.*
(2) *Donations.*
(3) *Other permanent differences in the form of learnership agreements.*

R'000	GROUP 2018	2017

26. Earnings per share attributable to ordinary shareholders

R'000	2018	2017
Net profit after tax	4 470 717	3 806 930
Preference dividend	(12 023)	(15 719)
Discount on repurchase of preference shares	(734)	(791)
Net profit after tax attributable to ordinary shareholders	**4 457 960**	**3 790 420**
Weighted average number of ordinary shares in issue (thousands)	**115 627**	**115 627**
Adjustment for:		
Exercise of share options	371	377
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**115 998**	**116 004**
Basic earnings per share (cents)[1]	**3 855**	**3 278**
Diluted earnings per share (cents)[2]	**3 843**	**3 267**

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

[2] To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity shareholders is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.

27. Headline earnings per share attributable to ordinary shareholders

R'000	2018	2017
Net profit attributable to ordinary shareholders	4 457 960	3 790 420
Non-headline items		
Loss on disposal of property and equipment	2 940	2 946
Income tax charge – property and equipment	164	(825)
Derecognition of intangible assets	–	1 223
Income tax charge – intangible assets	–	(342)
Headline earnings	**4 461 064**	**3 793 422**
Headline earnings per share (cents)	**3 858**	**3 281**
Diluted headline earnings per share (cents)	**3 846**	**3 270**

28. Dividends

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

R'000	Dividends per share (DPS)	Rand	Declared	LDT	Date paid
2018					
Ordinary dividend					
Interim	525	607 042	27 Sep 2017	17 Oct 2017	23 Oct 2017
Final[1]	945	1 092 675	26 Mar 2018	17 Apr 2018	23 Apr 2018
Preference dividend					
Interim	438.68	6 730	31 Aug 2017	19 Sep 2017	26 Sep 2017
Final	423.56	5 293	28 Feb 2018	19 Mar 2018	26 Mar 2018
2017					
Ordinary dividend					
Interim	450	520 321	26 Sep 2016	11 Oct 2016	17 Oct 2016
Final	800	925 016	27 Mar 2017	18 Apr 2017	24 Apr 2017
Preference dividend					
Interim	440.11	8 464	31 Aug 2016	20 Sep 2016	26 Sep 2016
Final	433.89	7 258	28 Feb 2017	14 Mar 2017	20 Mar 2017

[1] The directors declared a final dividend of 945 cents per share (2017: 800 cents per share) in respect of 2018 on 26 March 2018 amounting to a dividend of R1 093 million (2017: R925 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 ended 28 February 2018, which is in line with recommended accounting practice.

29. Financial risk management

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

Note 29 should be read with the sections in chapter 6 (page 88) of the integrated annual report and the CFO report marked as audited.

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The board established a risk and capital management committee (RCMC) comprising 2 independent non-executive directors, that operate in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment.

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

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

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures, enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

29. Financial risk management (continued)

29.1 Credit risk

Refer to pages 94 to 97 of the Integrated annual report for the qualitative disclosure of credit risk, marked as audited.

The key to consideration regarding credit risk management for the group, is to maintain the retail lending book within the group's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

Acquisition and retention strategies are built on the principles of client's credit behaviour (willingness to pay), affordability and source of income. Rehabilitation strategies are need-driven to assist clients based on their unique circumstances.

The group grants retail loans for which no security is obtained and accordingly the entire balance as per the balance sheet is exposed to credit risk. Exposure to systemic credit risk is regarded as being potentially higher due to the demographic credit characteristics of the client base. However, exposure to single-name concentration credit risk is low due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book.

The maximum capital advanced in terms of any one term loan is R250 000 (2017: R250 000). At financial year-end date the number of outstanding term loans was 1 341 983 (2017: 1 569 113).

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

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 RCMC.

Credit risk mitigation

In the prior year, interest rate limits and fees for credit agreements were changed on 6 May 2016. Prior to this date, we charged our clients an all-inclusive rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-May 2016 loan book in a manner through a first party cell captive structure. Following the changes from May 2016, all new applicable loans granted, require our clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment and in the case of death; there is no claim against their deceased estate for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third party cell captive. The exposure within the cell captives is fully re-insured to the reinsurance market except for 25% temporary and permanent disability cover which has been retained by the cell captive.

Another mitigation employed by the group is rescheduling. Rescheduling is used as a rehabilitation mechanism for arrears clients who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist non-arrears clients who contact the group. Rescheduling is customised to address clients' circumstances. It is applied for administrative reasons (e.g. pay frequency or employer changes) and where clients may be experiencing a temporary cash flow problem or a more permanent change in their circumstances that require relief. Various forms of rescheduling are available in order to offer a solution to our clients that is mutually beneficial, as it addressed the needs of clients and mitigates the risk of credit losses.

All forms of rescheduling are governed by a centrally controlled rules engine. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term by which a loan term can be extended. Rescheduling performance is continuously monitored on a segmented approach to ensure that it remains within the risk appetite of the bank; rules and provisioning are reviewed accordingly. Validation of the rescheduling policy is performed by credit book and decision support, business intelligence, financial management (provisioning) and the legal department (compliance) and agreed at the RCMC. Refer to note 7 for rescheduled information.

Investments

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents, interest bearing instruments and term deposit investments (notes 4, 5 and 6). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the credit committee, monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any 1 counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's.

Credit quality of investments

At financial year-end date the international long-term credit ratings, using Moody's ratings, were as follows:

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Total carrying amount
2018						
Cash on hand	4	–	**3 472 067**	–	–	**3 472 067**
Bank balances[1]	4	**25 275**	**15 667 767**	–	**527**	**15 693 569**
Resale agreements[2]	4	–	**4 363 010**	–	**403 672**	**4 766 682**
Central bank balances[3]	4	–	**1 137 659**	–	–	**1 137 659**
Money market funds[4]	4	–	–	–	**20 750**	**20 750**
Treasury bills (> 3 months)	5	–	**11 625 522**	–	–	**11 625 522**
Negotiable certificates of deposit (> 3 months)	5	–	**155 412**	–	–	**155 412**
Term deposit investments[5]	6	**1 303 077**	**1 225 254**	–	–	**2 528 331**
Other receivables[6]	8	–	**211 710**	–	**334 316**	**546 026**
Net insurance receivable	9	–	**245 204**	–	–	**245 204**
Derivative assets	41, 42	**129**	–	–	–	**129**
		1 328 481	**38 103 605**	–	**759 265**	**40 191 351**
2017						
Cash on hand	4	–	3 091 691	–	–	3 091 691
Bank balances[1]	4	–	12 170 493	–	2 204	12 172 697
Resale agreements[2]	4	–	–	–	756 937	756 937
Central bank balances[3]	4	–	1 922 106	–	–	1 922 106
Treasury bills (<3 months)	4	–	726 936	–	–	726 936
Money market funds[4]	4	–	–	–	6 855	6 855
Treasury bills (>3 months)	5	–	4 446 262	–	–	4 446 262
Negotiable certificates of deposit (>3 months)	5	452 973	427 489	–	–	880 462
Term deposit investments[5]	6	1 568 958	5 031 791	–	–	6 600 749
Other receivables[6]	8	–	587 540	–	115 271	702 811
Net insurance receivable	9	–	255 360	–	–	255 360
Derivative assets	41, 42	56 168	1 945	–	–	58 113
		2 078 099	28 661 613	–	881 267	31 620 979

(1) *The bank balances were with 9 institutions (2017: 8), with the maximum exposure to 1 institution being R8 092 million (2017: R6 305 million).*

(2) *As part of the resale agreements, the group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to R4 757.5 million (Feb 2017: R759.6 million) of which Rnil has been sold or repledged. The resale agreements indicated as 'unrated' are secured by negotiable instruments of banks regulated and domiciled in South Africa and carry international ratings of BBB. The resale agreement is with an unrated entity, resulting in the allocation above.*

(3) *All central bank balances are with the SARB and include the mandatory reserve deposit requirement.*

(4) *Money market funds consist of money market unit trusts. The placements were with 3 institutions (2017: 5).*

(5) *The balance is the maximum exposure to credit risk.*

(6) *Other receivables exclude deposits and prepayments.*

29. Financial risk management (continued)

29.2 Interest rate risk

The current group interest rate profile is monitored by ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including *inter alia*, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio. The exposure to interest rate risk is managed within board-approved tolerances.

Capitec's interest rate risk position is primarily the result of offering fixed-rate retail term loans and a conservative liquidity strategy. Interest rate management has a number of drivers, including mismatches in the repricing of assets and liabilities, changes in yield curve risk, optionality inherent in certain products and basis risk.

Cash flow interest rate risk

Cash, cash equivalents, money market funds and term deposit investments are invested in a mix of instruments earning a fixed rate of interest and those paying interest based on a floating rate. The group has discretion over the rates paid on its demand savings deposits and pays a fixed interest on its fixed-term retail deposits. Wholesale funding comprises a mix of floating and fixed-rate instruments. The group's most significant financial assets, loans and advances, which are carried at amortised cost, are exposed to fixed rates.

The group actively manages interest rate risk by minimising its exposed to the fixed-rate financial assets by in part cash flow hedging elements of its variable rate funding book to a fixed rate. Interest rate swaps have the economic effect of converting floating rate debt to fixed-rate debt. The net unmatched position, resulting from the group's exposure to variable rate funding from its retail deposits, exposes the group to cash flow interest rate risk.

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The group operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

Sensitivity analysis

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

The sensitivity analysis below reflects the impact of a 200 basis point increase or decrease in the South African interest rate environment:

- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (negotiable instruments and floating bond liabilities), excluding the effect of cash flow hedges
- Assets and liabilities accounted for at fair value through profit and loss (treasury bills that are market-to-market)
- On statement of financial position at the reporting date
- The movement in rates was applied as a parallel shift in the applicable yield curves
- The impact on the income statement reflects the effect of the shift in rates over 12 months, on an undiscounted basis, on net interest income, inclusive of the effect of interest rate hedges
- The impact on other comprehensive income reflects the change in the valuation of interest rate cash flow hedges

	Impact on income statement				Impact on equity			
200 basis points	2018		2017		2018		2017	
R'000	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**	**Pre-tax**	**Post-tax**
Increase	**(2 384)**	**(1 716)**	(2 320)	(1 671)	**33 874**	**24 389**	66 124	47 609
Decrease	**2 384**	**1 716**	2 320	1 671	**(33 874)**	**(24 389)**	(66 124)	(47 609)

29.3 Currency risk

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

Furthermore, subsequent investments to be made in foreign associates is also managed through the purchase of forward foreign exchange contracts.

Foreign currency exposures as a result of the investment in foreign associates is disclosed in the consolidated statement of changes in equity (refer to note 20).

Wholesale funding (refer to note 16) included a foreign denominated loan, which matured on 27 February 2018. The currency exposure was fully hedged using a cross currency swap (refer to note 42).

29.4 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates. Our exposure to market risk is mainly due to interest rate risk arising on the retail banking activities.

29.5 Liquidity risk

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

The table below analyses the group's assets and liabilities into maturity groupings based on the remaining period, at statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result.
- The cash flows of floating rate financial instruments are calculated using published forward market rates at statement of financial position date.
- The cash flows of the derivative financial instruments are included on a gross basis.
- Contractual cash flows with respect to items which have not yet been recorded on the statement of financial position are excluded. Refer to note 36.
- Retail loan commitments totalling R796.3 million (2017: R457.6 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of 1 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 48.1% (2017: 52%) of these commitments are expected to be drawn down within 1 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.

Refer to pages 109 and 110 of the integrated annual report for more on management's objectives, policies and processes for managing the risk.

29. Financial risk management (continued)

29.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[1], [2] – R'000	Notes	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Adjustment/ open ended[4]	Total
2018							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 137 659	–	–	–	–	1 137 659
Cash and cash equivalents – banks	4	17 768 738	6 237 218	–	–	–	24 005 956
Money markets unit trusts – corporate other	4	20 751	–	–	–	–	20 751
Held-to-maturity investments – sovereigns and banks[5]	5	200 000	2 754 240	9 241 211	–	–	12 195 451
Term deposit investments	6	120 173	1 062 131	1 404 658	–	–	2 586 962
Available-for-sale financial assets	11	–	–	–	–	100 000	100 000
Loans and advances – retail personal	7	3 107 374	4 899 080	19 590 007	51 532 936	(677 485)	78 451 912
Loans and advances – corporate other	7	27 018	–	–	–	–	27 018
Other receivables	8	439 240	107 351	29 355	3 478	–	579 424
Net insurance receivable	9	–	–	245 204	–	–	245 204
Derivative assets	10	–	58	75	–	–	133
Current income tax asset		–	–	107 154	–	–	107 154
Undiscounted assets		22 820 953	15 060 078	30 617 664	51 536 414	(577 485)	119 457 623
Adjustments for undiscounted assets		(1 012 531)	(2 140 774)	(8 298 948)	(19 930 977)	–	(31 383 230)
Discounted assets							
Provision for doubtful debts	7	(558 587)	(282 284)	(1 129 994)	(3 857 230)	–	(5 828 095)
Total discounted assets		21 249 835	12 637 020	21 188 722	27 748 207	(577 485)	82 246 298
Undiscounted liabilities							
Retail deposits and bonds	16	36 074 638	2 463 316	10 065 863	12 634 549	–	61 238 366
Wholesale deposits and bonds	16	97 009	741 558	1 447 674	4 960 805	–	7 247 046
Trade and other payables	17	1 070 282	468 765	32 931	107 171	234 772	1 913 921
Derivative liability		13 117	4 651	18 718	21 168	–	57 654
Provisions	18	–	–	–	66 835	–	66 835
Undiscounted liabilities		37 255 046	3 678 290	11 565 186	17 790 528	234 772	70 523 822
Adjustments for undiscounted liabilities to depositors		(28 004)	(212 127)	(1 161 145)	(3 056 991)	–	(4 458 267)
Total discounted liabilities		37 227 042	3 466 163	10 404 041	14 733 537	234 772	66 065 555
Net liquidity excess/(shortfall)		(15 977 207)	9 170 857	10 784 681	13 014 670	(812 257)	16 180 744
Cumulative liquidity excess/(shortfall)[2]		(15 977 207)	(6 806 350)	3 978 331	16 993 001	16 180 744	16 180 744

Maturities of financial assets and financial liabilities[1], [2] – R'000	Notes	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Adjustment/ open ended[4]	Total
2017							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 957 106	698 000	–	–	–	2 655 106
Cash and cash equivalents – banks	4	11 545 068	4 520 353	–	–	–	16 065 421
Money markets unit trusts – corporate other	4	6 855	–	–	–	–	6 855
Held-to-maturity investments – sovereigns and banks	5	240 000	1 656 973	3 611 740	–	–	5 508 713
Term deposit investments	6	110 487	3 176 224	3 553 678	–	–	6 840 389
Available-for-sale financial assets	11	–	–	–	–	100 000	100 000
Loans and advances – retail personal	7	3 063 925	4 744 656	18 864 778	49 108 078	(718 744)	75 062 693
Loans and advances – corporate other	7	10 164	–	–	–	–	10 164
Other receivables	8	698 436	4 753	28 871	2 139	–	734 199
Net insurance receivable	9	–	–	255 360	–	–	255 360
Derivative assets	10	227	(3 912)	63 487	3 774	–	63 576
Undiscounted assets		17 632 268	14 797 047	26 377 914	49 113 991	(618 744)	107 302 476
Adjustments for undiscounted assets		(1 084 396)	(2 222 778)	(8 492 958)	(18 614 620)	–	(30 414 752)
Discounted assets							
Provision for doubtful debts	7	(596 245)	(289 262)	(1 066 511)	(3 978 359)	–	(5 930 377)
Total discounted assets		15 951 627	12 285 007	16 818 445	26 521 012	(618 744)	70 957 347
Undiscounted liabilities							
Retail deposits and bonds	16	31 006 272	1 867 085	7 823 709	10 102 129	–	50 799 195
Wholesale deposits and bonds	16	82 025	1 199 446	1 493 339	6 492 120	–	9 266 930
Current income tax liabilities		92 694	(62 353)	–	–	–	30 341
Trade and other payables	17	662 937	433 376	29 012	161 525	213 800	1 500 650
Derivative liability		9 314	3 282	10 467	25 399	–	48 462
Provisions	18	–	–	–	81 024	–	81 024
Undiscounted liabilities		31 853 242	3 440 836	9 356 527	16 862 197	213 800	61 726 602
Adjustments for undiscounted liabilities to depositors		(28 393)	(211 526)	(1 099 174)	(3 147 625)	–	(4 486 718)
Total discounted liabilities		31 824 849	3 229 310	8 257 353	13 714 572	213 800	57 239 884
Net liquidity (shortfall)/excess		(15 773 222)	9 055 697	8 561 092	12 806 440	(932 544)	13 717 463
Cumulative liquidity (shortfall)/ excess[3]		(15 773 222)	(6 717 525)	1 843 567	14 650 007	13 717 463	13 717 463

[1] *The contractual maturity of the financial assets and liabilities of the company are all on demand to 1 month.*
[2] *The definitions of sovereign, banks, corporate and retail are aligned with the Banks' Act Regulations.*
[3] *Much of the liquidity shortfall in the demand to 3-month categories results from the investment of excess cash in treasury bills with maturities in excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise.*
[4] *The adjustment includes adjustments to loan origination fees, leave pay provision, deferred income and straight-lining of lease accruals. Open-ended refers to available-for-sale financial assets.*
[5] *99% of held-to-maturity investments – sovereigns and banks relates to investments in sovereigns.*

29. Financial risk management (continued)

29.5 Liquidity risk (continued)

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than 1 year – R'000	Notes	Total	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years
2018								
Undiscounted assets								
Loans and advances – retail personal	7	51 532 936	20 914 395	14 705 006	8 971 979	4 938 506	2 003 050	–
Other receivables	8	3 478	3 224	–	–	–	254	–
Undiscounted assets		51 536 414	20 917 619	14 705 006	8 971 979	4 938 506	2 003 304	–
Adjustments for undiscounted assets		(19 930 977)	(7 430 362)	(4 846 618)	(3 295 535)	(2 827 649)	(1 530 813)	–
Discounted assets								
Provision for doubtful debts	7	(3 857 230)	(1 738 024)	(1 174 897)	(609 904)	(234 436)	(99 969)	–
Total discounted assets		27 748 207	11 749 233	8 683 491	5 066 540	1 876 421	372 522	–
Undiscounted liabilities								
Deposits and bonds	16	12 634 549	4 176 808	2 805 969	3 004 680	2 647 092	–	–
Wholesale deposits and bonds	16	4 960 805	2 554 690	1 702 263	545 249	93 995	64 608	–
Trade and other payables	17	107 171	66 720	23 061	7 293	6 361	3 736	–
Derivative liability		21 168	16 195	4 973	–	–	–	–
Provisions	18	66 835	43 781	23 054	–	–	–	–
Undiscounted liabilities		17 790 528	6 858 194	4 559 320	3 557 222	2 747 448	68 344	–
Adjustments for undiscounted liabilities to depositors		(3 056 990)	(1 073 429)	(736 590)	(663 268)	(573 737)	(9 966)	–
Total discounted liabilities		14 733 538	5 784 765	3 822 730	2 893 954	2 173 711	58 378	–
Net liquidity excess/(shortfall)		13 014 669	5 964 468	4 860 761	2 172 586	(297 290)	314 144	–
Cumulative liquidity excess/(shortfall)		16 993 001	9 942 799	14 803 560	16 976 146	16 678 856	16 993 000	16 993 000

Analysis of financial assets and liabilities (discounted cash flows) with maturities of more than 1 year – R'000	Notes	Total	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years
2017								
Undiscounted assets								
Loans and advances – retail personal	7	49 108 178	20 005 094	14 270 472	8 578 715	4 309 429	1 944 468	–
Other receivables	8	2 139	1 919	–	–	–	220	–
Derivative assets	10	3 774	730	3 044	–	–	–	–
Undiscounted assets		49 114 091	20 007 743	14 273 516	8 578 715	4 309 429	1 944 688	–
Adjustments for undiscounted assets		(18 614 620)	(7 625 367)	(4 739 483)	(2 985 923)	(2 031 849)	(1 231 998)	–
Discounted assets								
Provision for doubtful debts	7	(3 978 359)	(1 510 613)	(1 107 644)	(696 632)	(387 652)	(275 818)	–
Total discounted assets		26 521 112	10 871 763	8 426 389	4 896 160	1 889 928	436 872	–
Undiscounted liabilities								
Retail deposits and bonds	16	10 102 129	3 588 840	1 932 352	2 139 365	2 441 572	–	–
Wholesale deposits and bonds	16	6 492 120	2 001 123	2 526 050	1 101 774	570 448	292 725	–
Trade and other payables	17	161 525	95 793	36 496	10 809	2 204	16 223	–
Derivative liability		25 399	18 521	4 462	2 416	–	–	–
Provisions	18	81 024	58 997	22 027	–	–	–	–
Undiscounted liabilities		16 862 197	5 763 274	4 521 387	3 254 364	3 014 224	308 948	–
Adjustments for undiscounted liabilities to depositors		(3 147 625)	(1 106 471)	(759 648)	(589 095)	(657 813)	(34 598)	–
Total discounted liabilities		13 714 572	4 656 803	3 761 739	2 665 269	2 356 411	274 350	–
Net liquidity excess/(shortfall)		12 806 440	6 214 960	4 664 650	2 230 791	(466 483)	162 522	–
Cumulative liquidity excess/(shortfall)		14 650 007	8 058 527	12 723 177	14 953 968	14 487 485	14 650 007	14 650 007

29. Financial risk management (continued)

29.6 Capital management

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

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

The group has an Internal Capital Adequacy Assessment Process (ICAAP) which, on an ongoing basis, drives the group's position on capital management. The ICAAP reviews the historic, current and future capital positioning of the group, both from an internal and regulatory capital perspective.

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

	GROUP		COMPANY	
R'000	2018	2017	2018	2017
Composition of qualifying regulatory capital				
Ordinary share capital	5 649 020	5 649 020	6 105 981	6 105 981
Foreign currency translation reserve	3 158	–	–	–
Accumulated profit	13 153 434	10 329 731	12 331 048	9 581 370
	18 805 612	15 978 751	18 437 029	15 687 351
Regulatory adjustments				
– Intangible assets in terms of IFRS	(283 011)	(279 946)	(283 011)	(279 946)
– Specified advances	(12 035)	(2 927)	(8 511)	(18)
– Unappropriated profit	(1 128 678)	(808 996)	(1 128 678)	(808 996)
Common Equity Tier 1 capital (CET1)	17 381 888	14 886 882	17 016 829	14 598 391
Issued preference share capital[1]	112 803	150 998	112 803	150 998
Phase out – non-loss absorbent[2]	(9 216)	(21 513)	(9 216)	(21 513)
Additional Tier 1 capital (AT1)	103 587	129 485	103 587	129 485
Tier 1 capital (T1)	17 485 475	15 016 367	17 120 416	14 727 876
Issued subordinated debt	2 441 000	2 641 000	2 441 000	2 641 000
Phase out – non-loss absorbent[2]	(2 076 600)	(1 588 400)	(2 076 600)	(1 588 400)
Deduction for third-party capital issued by bank subsidiary[3]	(80 962)	(195 766)	–	–
Total subordinated debt	283 438	856 834	364 400	1 052 600
Unidentified impairments	519 230	491 168	519 230	491 168
Tier 2 capital (T2)	802 668	1 348 002	883 630	1 543 768
Qualifying regulatory capital	18 288 143	16 364 369	18 004 046	16 271 644
CET1 (%)	33.9	30.8	33.3	30.2
AT1 (%)	0.2	0.3	0.2	0.3
T1 (%)	34.1	31.1	33.5	30.5
T2 (%)	1.6	2.8	1.7	3.2
Total capital adequacy %[4]	35.7	33.9	35.2	33.7

	GROUP		COMPANY	
R'000	2018	2017	2018	2017
Composition of required regulatory capital				
On statement of financial position	4 602 965	4 213 819	4 621 702	4 225 547
Off statement of financial position	–	–	–	–
Credit risk	4 602 965	4 213 819	4 621 702	4 225 547
Operational risk	683 940	622 840	683 002	622 784
Equity risk in the banking book	56 819	41 165	41 872	41 165
Other assets	355 777	312 511	345 109	300 371
Total regulatory capital requirement[5]	5 699 501	5 190 335	5 691 685	5 189 867
Composition of risk-weighted assets[6]				
On statement of financial position	41 374 966	39 198 314	41 543 388	39 307 414
Off statement of financial position	–	–	–	–
Credit risk	41 374 966	39 198 314	41 543 388	39 307 414
Operational risk	6 147 776	5 793 863	6 139 346	5 793 340
Equity risk in the banking book	510 730	382 933	376 379	382 933
Other assets	3 197 993	2 907 080	3 102 106	2 794 146
Total risk-weighted assets	51 231 465	48 282 190	51 161 219	48 277 833
Total assets based on IFRS	84 957 233	73 357 897	84 850 405	73 348 966
Total risk-weighted assets – adjustments[7]	(33 725 768)	(25 075 707)	(33 689 186)	(25 071 133)
Total risk-weighted assets – regulatory	51 231 465	48 282 190	51 161 219	48 277 833

[1] *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 56.44% (2017: 41.69%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*
[2] *Starting 2013, the non-loss-absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.*
[3] *Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3. This deduction phases in at 20% per annum.*
[4] *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*
[5] *This value is 11.125% (2017: 10.75%) of risk-weighted assets, being the Basel global minimum requirement of 8%, the South African country-specific buffer of 1.25% (2017: 1.5%) and the capital conservation buffer of 1.875% (disclosable in terms of SARB November 2016 directive in order to standardise reporting across banks). In terms of the regulations the individual capital requirement (ICR) is excluded.*
[6] *RWAs are calculated by using regulatory percentages applied to the statement of financial position, in order to establish the base for calculating the required regulatory capital.*
[7] *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*

29. Financial risk management (continued)

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

		At fair value through profit and loss		At amortised cost		
R'000	Notes	Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total
2018						
Interest income	21	–	–	15 474 457	–	15 474 457
Interest expense	21	–	–	–	(4 184 449)	(4 184 449)
Loan fee income		–	–	1 792 852	–	1 792 852
Loan fee expense		–	–	(412 867)	–	(412 867)
Transaction fee income		–	–	–	6 925 526	6 925 526
Transaction fee expense		–	–	–	(1 798 483)	(1 798 483)
Dividend income	22	–	–	–	–	–
Net provision for doubtful debts charge	23	–	–	(5 279 990)	–	(5 279 990)
2017						
Interest income	21	–	–	14 934 427	–	14 934 427
Interest expense	21	–	–	–	(3 551 821)	(3 551 821)
Loan fee income		–	–	1 136 821	–	1 136 821
Loan fee expense		–	–	(642 445)	–	(642 445)
Transaction fee income		–	–	–	5 499 858	5 499 858
Transaction fee expense		–	–	–	(1 576 435)	(1 576 435)
Dividend income	22	–	45	–	–	45
Net provision for doubtful debts charge	23	–	–	(5 121 177)	–	(5 121 177)

29.8 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

Determination on fair values and valuation processes

Fair values are market-based, calculated first with reference to observable inputs available in the market, then less observable and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistent with the unit of account used for the measurement of the asset or liability in the statement of financial position and income statement and assume an orderly market on a going concern basis.

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

Hierarchy of fair value of financial instruments

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

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

		At fair value through other comprehensive income		At amortised cost				
R'000	Note	Financial assets	As hedging instrument	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2018								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	25 090 728	–	25 090 728	25 090 728	[2]
Held-to-maturity investments	5	–	–	11 780 934	–	11 780 934	11 780 934	[2]
Available-for-sale investment	11	100 000	–	–	–	100 000	100 000	Level 3
Term deposit investments[3]	6	–	–	2 528 331	–	2 528 331	2 528 331	[2]
Net loans and advances	7	–	–	41 814 395	–	41 814 395	44 147 508	Level 3
Other receivables	8	–	–	579 424	–	579 424	579 424	[2]
Net insurance receivable	9	–	–	245 204	–	245 204	245 204	
Derivative assets[1]	10	–	129	–	–	129	129	Level 2
Financial liabilities								
Deposits and bonds	16	–	–	–	64 030 224	64 030 224	64 499 536	Level 2
– Listed bonds		–	–	–	4 667 033	4 667 033	4 807 323	
– Other fixed-term institutional deposits		–	–	–	1 538 693	1 538 693	1 574 236	
– Retail funding		–	–	–	57 824 498	57 824 498	58 117 977	
Derivative liabilities[1]		–	54 576	–	–	54 576	54 576	Level 2
Trade and other payables	17	–	–	–	1 913 921	1 913 921	1 913 921	[2]
2017								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	18 677 222	–	18 677 222	18 677 222	[2]
Held-to-maturity investments	5	–	–	5 326 724	–	5 326 724	5 326 724	[2]
Available for sale investment	11	100 000	–	–	–	100 000	100 000	Level 3
Term deposit investments	6	–	–	6 600 749	–	6 600 749	6 600 749	[2]
Net loans and advances	7	–	–	39 204 980	–	39 204 980	43 232 558	Level 3
Other receivables	8	–	–	734 199	–	734 199	734 199	[2]
Net insurance receivable	9	–	–	255 360	–	255 360	255 360	
Derivative assets[1]	10	–	58 113	–	–	58 113	58 113	Level 2
Financial liabilities								
Deposits and bonds	16	–	–	–	55 582 271	55 582 271	55 911 230	Level 2
– Listed bonds		–	–	–	5 099 199	5 099 199	5 234 729	
– Other fixed-term institutional deposits		–	–	–	2 443 852	2 443 852	2 545 009	
– Retail funding		–	–	–	48 039 220	48 039 220	48 131 492	
Derivative liabilities[1]		–	45 598	–	–	45 598	45 598	Level 2
Other liabilities	17	–	–	–	1 455 052	1 455 052	1 455 052	[2]

[1] *Cash flow hedges.*
[2] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*
[3] *Term deposit investments are short term.*

29. Financial risk management (continued)

29.9 Fair value calculation methods, inputs and techniques

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

Loans and advances to clients

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

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

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

Market risk premium

A market risk premium was applied to the equity element in the WACC. This addresses the opportunity cost of other similar available investments on a risk and reward basis, industry cyclicality and the cost of regulation as banking is a regulated industry.

Debt to equity ratio

Equity is regarded as the more expensive component of the WACC. A shift in the assumed debt to equity ratio impacts the valuation accordingly.

Marketability discount overlay

A marketability discount was applied to reflect the relative illiquidity of the investment and the impact of disconnecting the advances book from the supporting bank infrastructure.

Derivative assets and liabilities

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

Deposits and bonds

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

Listed subordinated and senior bonds

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

Unlisted wholesale funding

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

Retail fixed-term deposits

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

	GROUP		COMPANY	
R'000	2018	2017	2018	2017
30. Retirement benefits				
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the group and is subject to the Pension Funds Act, Act 24 of 1956. The amount contributed is included in salaries and bonus cost as per note 24.	**194 272**	159 118	**–**	–

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.

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

31. Related-party transactions

Subsidiaries				
Dividends				
Ordinary dividend received	–	–	1 631 808	1 306 585
Preference dividend received	–	–	12 023	15 719
Capitec Bank Limited	–	–	1 643 831	1 322 304
Management fees received – Capitec Bank Limited	–	–	3 704	3 121
Interest in subsidiaries are disclosed in note 12.				
Loans due (to)/from:				
Capitec Bank Limited[1]	–	–	(14 755)	11 135
Keymatrix Proprietary Limited	–	–	(1)	(1)
Donations				
Community Keepers[6]	–	–	2 000	–
Parties with significant influence				
Brokers' fees	230	110	–	–
Sponsor fees	90	81	90	81
PSG Group and subsidiaries[2]	320	191	90	81
Key management				
Key management employees' remuneration				
Salaries and other short-term benefits	45 013	37 953	–	–
Post-employment benefits	2 066	1 545	–	–
Share-based payments	56 252	90 607	–	–
Key management compensation paid by subsidiaries[3]	103 331	130 105	–	–
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme[4]				
Loans outstanding at the beginning of the year	2 789	2 739	–	–
Loans advanced during the year	13 329	–	–	–
Interest charged on loans during the year	688	208	–	–
Loan repayments during the year	(5 032)	(158)	–	–
Loans outstanding at the end of the year	11 774	2 789	–	–
Retail deposits from directors and other key management employees[5]				
Deposits at the beginning of the year	11 393	7 599	–	–
Interest earned during the year	488	1 083	–	–
(Withdrawals)/deposits made during the year	(3 307)	2 711	–	–
Deposits at the end of the year	8 574	11 393	–	–

Directors' interest in contracts

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant contract with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year.

(1) *The loan is subject to an unlimited cross suretyship.*
(2) *Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth. PSG Capital is the corporate advisor and sponsor of the group.*
(3) *Key management is considered to be the members of the executive management committee, excluding development members. Key management compensation excludes directors' remuneration.*
(4) *No loans were extended to directors. Loans to other key management employees by subsidiaries have fixed repayment terms and bear interest at the official rate of interest for individuals as determined by the South African Revenue Service (SARS).*
(5) *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*
(6) *During the year, a R2 million donation in terms of section 18A was made to Community Keepers, a registered NPO that provides psychological and social services to learners. Our CFO serves as the chairman of this organisation.*

Directors' interest in share capital[1]

During the year the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 16 847 813 (2017: 17 256 823) Capitec Bank Holdings Limited shares, equivalent to 14.57%, (2017: 14.92%) of the issued share capital. The individual interests of the directors including those that resigned during the year were as follows:

	Number of shares held					
	Beneficial		Non-beneficial		Total	
Ordinary shares	**Direct**	**Indirect****	**Direct**	**Indirect****	**Shares**	**%**
2018						
AP du Plessis*	–	1 030 000	–	–	1 030 000	0.89
MS du Pré le Roux	–	–	–	13 301 311	13 301 311	11.50
GM Fourie*	1 861	1 005 752	–	7 707	1 015 320	0.88
LA Dlamini[2]	–	–	–	–	–	0.00
NS Mashiya	748	–	–	–	748	0.00
JD McKenzie	–	–	–	–	–	0.00
NS Mjoli-Mncube	75 400	–	–	–	75 400	0.07
PJ Mouton	–	12 540	–	–	12 540	0.01
CA Otto	1 064	–	–	503 930	504 994	0.44
K Makwane[3]	–	–	–	–	–	0.00
R Stassen (Chairman)	–	–	–	902 500	902 500	0.78
JP Verster	5 000	–	–	–	5 000	0.00
	84 073	2 048 292	–	14 715 448	16 847 813	14.57
2017						
AP du Plessis*	30 000	1 031 204	–	–	1 061 204	0.92
MS du Pré le Roux	–	–	–	13 306 700	13 306 700	11.51
GM Fourie*	–	1 032 875	–	–	1 032 875	0.89
RJ Huntley[4]	–	–	–	28 292	28 292	0.02
NS Mashiya	748	–	–	–	748	0.00
JD McKenzie	–	–	–	–	–	0.00
NS Mjoli-Mncube	75 400	–	–	–	75 400	0.07
PJ Mouton	–	12 540	–	–	12 540	0.01
CA Otto	1 064	–	–	498 000	499 064	0.43
G Pretorius[5]	–	32 500	–	–	32 500	0.03
R Stassen (Chairman)	–	–	–	1 202 500	1 202 500	1.04
JP Verster	5 000	–	–	–	5 000	0.00
	112 212	2 109 119	–	15 035 492	17 256 823	14.92

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

(1) *No transactions occurred after year-end and before the date of approval of the annual financial statements that can impact any shareholding of any director.*
(2) *Appointed on 6 April 2017.*
(3) *Appointed on 6 April 2017.*
(4) *Resigned on 21 September 2016.*
(5) *Retired on 27 May 2016.*

	2018		2017	
Preference shares	**Number of shares**	**%**	**Number of shares**	**%**
R Stassen (non-beneficial)	21 000	1.68	21 000	1.26
	21 000	1.68	21 000	1.26

31. Related-party transactions (continued)

Directors' interest in share incentive scheme – options

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ Options granted Number of share options	(Options exercised)/ Options granted Market price R	(Options exercised)/ Options granted Exercise date	Closing balance Number of share options
2018								
AP du Plessis	01 Apr 17	12 Apr 11	160.09	3 750	(3 750)	719.00	10 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	(5 000)	778.23	04 Apr 17	–
	01 Apr 17	10 Apr 13	201.40	4 375	(4 375)	719.00	10 Apr 17	–
	01 Apr 17	15 Apr 14	196.43	5 936	(5 936)	778.23	04 Apr 17	–
	01 Apr 17	01 Apr 15	371.88	17 364	(17 364)	719.00	10 Apr 17	–
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	5 937	–	–	–	5 937
	01 Apr 18	01 Apr 15	371.88	17 364	–	–	–	17 364
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	5 937	–	–	–	5 937
	01 Apr 19	01 Apr 15	371.88	17 363	–	–	–	17 363
	01 Apr 19	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 20	01 Apr 17	705.93	–	3 929	–	–	3 929
	01 Apr 20	01 Apr 15	371.88	17 363	–	–	–	17 363
	01 Apr 20	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 21	01 Apr 17	705.93	–	3 929	–	–	3 929
	01 Apr 21	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 22	01 Apr 17	705.93	–	3 928	–	–	3 928
	01 Apr 22	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 23	01 Apr 17	705.93	–	3 928	–	–	3 928
				136 559	(20 711)			115 848

Directors	Maturity date	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/ Options granted Number of share options	(Options exercised)/ Options granted Market price R	(Options exercised)/ Options granted Exercise date	Closing balance Number of share options
2018								
GM Fourie	01 Apr 17	12 Apr 11	160.09	2 500	(2 500)	746.54	12 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	(5 000)	746.54	12 Apr 17	–
	01 Apr 17	10 Apr 13	201.40	4 375	(4 375)	746.54	12 Apr 17	–
	01 Apr 17	15 Apr 14	196.43	4 582	(4 582)	746.54	12 Apr 17	–
	01 Apr 17	01 Apr 15	371.88	22 872	(22 872)	746.54	12 Apr 17	–
	01 Nov 17	01 Nov 13	209.83	6 875	(6 875)	933	11 Dec 17	–
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	196.43	4 583	–	–	–	4 583
	01 Apr 18	01 Apr 15	371.88	22 872	–	–	–	22 872
	01 Nov 18	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	196.43	4 583	–	–	–	4 583
	01 Apr 19	01 Apr 15	371.88	22 872	–	–	–	22 872
	01 Apr 19	01 Apr 16	473.05	9 170	–	–	–	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	–	–	–	6 875
	29 Mar 20	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 20	01 Apr 15	371.88	22 871	–	–	–	22 871
	01 Apr 20	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 21	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 21	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 22	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 22	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 23	01 Apr 17	705.93	–	6 376	–	–	6 376
				188 162	(20 697)			167 465
NS Mashiya	01 Nov 17	02 Nov 15	539.88	8 875	(8 875)	990	23 Nov 17	–
(direct beneficial)	01 Nov 18	02 Nov 15	539.88	8 875	–	–	–	8 875
	01 Apr 19	01 Apr 16	473.05	1 948	–	–	–	1 948
	01 Nov 19	02 Nov 15	539.88	8 875	–	–	–	8 875
	29 Mar 20	01 Apr 17	705.93	–	1 354	–	–	1 354
	01 Apr 20	01 Apr 16	473.05	1 948	–	–	–	1 948
	01 Nov 20	02 Nov 15	539.88	8 875	–	–	–	8 875
	29 Mar 21	01 Apr 17	705.93	–	1 354	–	–	1 354
	01 Apr 21	01 Apr 16	473.05	1 948	–	–	–	1 948
	29 Mar 22	01 Apr 17	705.93	–	1 353	–	–	1 353
	01 Apr 22	01 Apr 16	473.05	1 947	–	–	–	1 947
	29 Mar 23	01 Apr 17	705.93	–	1 353	–	–	1 353
				43 291	(3 461)			39 830

31. Related-party transactions (continued)

Directors	Maturity date	Issue date	Strike price R	Opening balance: Number of share options	(Options exercised)/ Options granted: Number of share options	Market price R	Exercise date	Closing balance: Number of share options
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	(7 500)	719.00	10 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	(12 500)	719.00	10 Apr 17	–
	01 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				32 500	(20 000)			12 500
Total				400 512	(64 869)			335 643

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

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance: Number of SARs	(SARs exercised)/ SARs granted: Number of SARs	Market price R	Exercise date	Closing balance: Number of SARs
2018								
AP du Plessis	01 Apr 17	12 Apr 11	160.09	3 750	(3 750)	789.00	05 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	(5 000)	789.00	05 Apr 17	–
	01 Apr 17	10 Apr 13	201.40	4 375	(4 375)	789.00	05 Apr 17	–
	01 Apr 17	15 Apr 14	0.01	2 016	(2 016)	789.00	05 Apr 17	–
	01 Apr 17	01 Apr 15	0.01	5 904	(5 904)	789.00	05 Apr 17	–
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	0.01	2 016	–	–	–	2 016
	01 Apr 18	01 Apr 15	0.01	5 904	–	–	–	5 904
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	0.01	2 017	–	–	–	2 017
	01 Apr 19	01 Apr 15	0.01	5 903	–	–	–	5 903
	01 Apr 19	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 20	01 Apr 17	705.93	–	3 929	–	–	3 929
	01 Apr 20	01 Apr 15	0.01	5 903	–	–	–	5 903
	01 Apr 20	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 21	01 Apr 17	705.93	–	3 929	–	–	3 929
	01 Apr 21	01 Apr 16	473.05	5 605	–	–	–	5 605
	29 Mar 22	01 Apr 17	705.93	–	3 928	–	–	3 928
	01 Apr 22	01 Apr 16	473.05	5 605	–	–	–	5 605
	09 Mar 23	01 Apr 17	70 593	–	3 928	–	–	3 928
				78 958	(5 331)			73 627

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance: Number of SARs	(SARs exercised)/ SARs granted: Number of SARs	Market price R	Exercise date	Closing balance: Number of SARs
2018								
GM Fourie	01 Apr 17	12 Apr 11	160.09	2 500	(2 500)	789.00	05 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	5 000	(5 000)	789.00	05 Apr 17	–
	01 Apr 17	10 Apr 13	201.40	4 375	(4 375)	789.00	05 Apr 17	–
	01 Apr 17	15 Apr 14	0.01	1 556	(1 556)	789.00	05 Apr 17	–
	01 Apr 17	01 Apr 15	0.01	7 777	(7 777)	789.00	05 Apr 17	–
	01 Nov 17	01 Nov 13	209.83	6 875	(6 875)	947.55	07 Nov 17	–
	01 Apr 18	11 Apr 12	198.52	5 000	–	–	–	5 000
	01 Apr 18	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 18	15 Apr 14	0.01	1 556	–	–	–	1 556
	01 Apr 18	01 Apr 15	0.01	7 777	–	–	–	7 777
	01 Nov 18	01 Nov 13	209.83	6 875	–	–	–	6 875
	01 Apr 19	10 Apr 13	201.40	4 375	–	–	–	4 375
	01 Apr 19	15 Apr 14	0.01	1 557	–	–	–	1 557
	01 Apr 19	01 Apr 15	0.01	7 776	–	–	–	7 776
	01 Apr 19	01 Apr 16	473.05	9 170	–	–	–	9 170
	01 Nov 19	01 Nov 13	209.83	6 875	–	–	–	6 875
	29 Mar 20	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 20	01 Apr 15	0.01	7 776	–	–	–	7 776
	01 Apr 20	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 21	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 21	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 22	01 Apr 17	705.93	–	6 377	–	–	6 377
	01 Apr 22	01 Apr 16	473.05	9 169	–	–	–	9 169
	29 Mar 23	01 Apr 17	705.93	–	6 376	–	–	6 376
				118 702	(2 576)			116 126
NS Mashiya	01 Nov 17	02 Nov 15	0.01	3 000	(3 000)	990.00	23 Nov 17	–
(direct beneficial)	01 Nov 18	02 Nov 15	0.01	3 000	–	–	–	3 000
	01 Apr 19	01 Apr 16	473.05	1 948	–	–	–	1 948
	01 Nov 19	02 Nov 15	0.01	3 000	–	–	–	3 000
	29 Mar 20	01 Apr 17	705.93	–	1 354	–	–	1 354
	01 Apr 20	01 Apr 16	473.05	1 948	–	–	–	1 948
	01 Nov 20	02 Nov 15	0.01	3 000	–	–	–	3 000
	29 Mar 21	01 Apr 17	705.93	–	1 354	–	–	1 354
	01 Apr 21	01 Apr 16	473.05	1 948	–	–	–	1 948
	29 Mar 22	01 Apr 17	705.93	–	1 353	–	–	1 353
	01 Apr 22	01 Apr 16	473.05	1 947	–	–	–	1 947
	29 Mar 23	01 Apr 17	705.93	–	1 353	–	–	1 353
				19 791	2 414			22 205
R Stassen	01 Apr 17	12 Apr 11	160.09	7 500	(7 500)	783.00	26 Apr 17	–
(direct beneficial)	01 Apr 17	11 Apr 12	198.52	12 500	(12 500)	783.00	26 Apr 17	–
	01 Apr 18	11 Apr 12	198.52	12 500	–	–	–	12 500
				32 500	(20 000)			12 500
Total				249 951	(25 493)			224 458

31. Related-party transactions (continued)

Directors' interest in share capital[1]

The total share option expense relating to directors amounted to R20 687 552 (2017: R19 189 329) and share appreciation rights expense amounted to R43 965 653 (2017: R57 761 790).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2018						
Executive[1]						
AP du Plessis	8 170	77	3 118	–	11 365	1 983
GM Fourie	10 625	329	4 049	–	15 003	3 219
NS Mashiya	4 001	41	1 523	–	5 565	683
Non-executive						
MS du Pré le Roux	–	–	–	300	300	–
LA Dlamini[2]	–	–	–	325	325	–
JD McKenzie	–	–	–	670	670	–
NS Mjoli-Mncube	–	–	–	360	360	–
PJ Mouton	–	–	–	480	480	–
CA Otto	–	–	–	670	670	–
K Makwane[3]	–	–	–	271	271	–
R Stassen (Chairman)	–	–	–	1 300	1 300	–
JP Verster	–	–	–	610	610	–
	22 796	447	8 690	4 986	36 919	5 885
2017						
Executive[1]						
AP du Plessis	7 525	76	2 861	–	10 462	3 204
GM Fourie	9 750	80	3 750	–	13 580	5 242
NS Mashiya	3 733	112	1 418	–	5 263	1 113
Non-executive						
MS du Pré le Roux	–	–	–	589	589	–
RJ Huntley[4]	–	–	–	184	184	–
JD McKenzie	–	–	–	565	565	–
NS Mjoli-Mncube	–	–	–	330	330	–
PJ Mouton	–	–	–	495	495	–
CA Otto	–	–	–	620	620	–
G Pretorius[5]	–	–	–	79	79	–
R Stassen (Chairman)	–	–	–	1 004	1 004	–
JP Verster	–	–	–	565	565	–
	21 008	268	8 029	4 431	33 736	9 559

[1] The executive directors are the prescribed officers of the company.
[2] Appointed on 6 April 2017
[3] Appointed on 6 April 2017
[4] Resigned on 21 September 2016
[5] Retired on 27 May 2016

32. Cash flow from operations

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Net profit before tax and equity accounted earnings	6 152 715	5 240 605	1 643 831	1 322 331
Deduct interest income	(15 474 457)	(14 934 427)	(215)	(126)
Add back interest expenses	4 184 449	3 551 821	–	–
Add back interest received	15 335 553	14 947 917	215	126
Deduct interest paid	(4 194 240)	(3 538 092)		
Adjusted for non-cash items				
Movement in provision for doubtful debts charge	(102 282)	798 772		
Bad debts written off	6 662 691	5 447 481	–	–
Depreciation	420 272	358 446	–	–
Amortisation	139 878	178 531	–	–
Loss on disposal of assets	2 940	4 169	–	–
Share-based employee costs – options	36 709	42 030	–	–
Movements in assets and liabilities				
Loans and advances[1]	(8 601 767)	(9 490 421)	–	1 386
Other receivables	149 652	(909 467)	1 990	439
Net insurance receivables	(552 615)	(214 461)		
Derivatives	46 127	108 946	–	–
Retail deposits and other wholesale funding[2]	9 067 744	9 062 240	–	–
Trade and other payables	431 423	142 241	3 848	(5 643)
Movements in provisions	(14 189)	(26 881)	–	–
Share-based employee costs – SARs	(16 758)	120 755	–	–
Cash flow from operations	13 673 845	10 890 205	1 649 669	1 318 513

	2018	2017
[1] Movement in loans and advances to clients	(8 601 767)	(9 490 421)
Gross loans advances opening balance	45 135 357	40 891 465
Gross loans and advances closing balance	(47 642 490)	(45 135 357)
Movement in accrued interest	5 286	(13 509)
Bad debts written off	(6 662 691)	(5 447 481)
Third party cell captive cost	562 771	214 461
[2] Retail deposits and wholesale funding	9 067 744	9 062 240
Movement in retail deposits	9 769 871	10 238 656
Movement in other wholesale funding	(702 127)	(1 176 416)

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017

33. Income taxes paid

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Balance at the beginning of the year	30 341	(52 702)	–	–
Income statement charge	1 684 534	1 433 675	–	–
Movement in deferred tax	(68 936)	83 349	–	–
Tax effect on settlement of share options taken to equity	(11 648)	(45 991)	–	–
Balance at the end of the year	107 154	(30 341)	–	–
Income tax paid	**1 741 445**	**1 387 990**	**–**	**–**

34. Dividends paid

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Balance at the beginning of the year	9 652	10 382	9 652	10 382
Dividend declared during the year:				
Ordinary dividend	1 531 483	1 306 585	1 532 058	1 306 585
Preference dividend	12 023	15 719	12 023	15 719
Balance at the end of the year	(8 258)	(9 652)	(8 258)	(9 652)
Dividends paid	**1 544 900**	**1 323 034**	**1 545 475**	**1 323 034**

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

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Nil (2017: Nil) ordinary shares issued	–	–	–	–
Shares acquired	(224 918)	(27 288)	–	–
Fair value of shares utilised to settle share options	(224 918)	(27 288)	–	–
Proceeds on settlement of options	73 787	13 159	–	–
	(151 131)	(14 129)	–	–

36. Commitments and contingent liabilities

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Property operating lease commitments[1]				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within 1 year	468 968	421 522	–	–
From 1 to 5 years	1 292 109	1 244 708	–	–
After 5 years	269 015	298 150	–	–
Total future cash flows	**2 030 092**	**1 964 380**	**–**	**–**
Straight-lining accrued	(135 151)	(113 997)	–	–
Future expenses	**1 894 941**	**1 850 383**	**–**	**–**
Sub-lease payments: Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	4 395	5 561	–	–

[1] *The group leases various branches under non-cancellable operating leases expiring within 1 to 11 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess space is sublet to third parties also under non-cancellable operating leases.*

R'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Other operating lease commitments				
Within 1 year	–	355	–	–
	–	355	–	–
Capital commitments – approved by the board				
Contracted for				
Property and equipment	147 649	196 414	–	–
Intangible assets	15 777	35 609	–	–
Not contracted for				
Property and equipment	896 644	923 647	–	–
Intangible assets	242 522	392 979	–	–
	1 302 592	1 548 649	–	–

37. Borrowing powers

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

These borrowing powers are subject to the limitations of the Banks Act and section 45(3)(a)(ii) of the Companies Act. A special resolution was passed at the annual general meeting on 26 May 2017 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or inter-related company to the company, on the terms and conditions and for the amounts that the board may determine.

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

38. Share incentive scheme

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited (CBHL). The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of CBHL and the group. The group 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 group allows its employees to purchase shares in CBHL up to a value not exceeding 20% (2017: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2017: 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 group offers share options in CBHL to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 2 to 6 years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

	2018		2017
Number	Weighted average share price R		
Options issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	317.55	962 709	868 487
Options granted	705.93	96 188	143 446
Options cancelled and/or lapsed	–	–	–
Options exercised	262.34	(281 555)	(49 224)
Balance at the end of the year	385.61	777 342	962 709
SARs issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	203.39	602 547	511 938
SARs granted	705.93	96 188	143 446
SARs cancelled and/or lapsed	–	–	–
SARs exercised	136	(180 083)	(52 837)
Balance at the end of the year	319.95	518 652	602 547

	2018		2017	
Analysis of outstanding share options by year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2017/2018	–	–	262.34	281 555
2018/2019	276.32	247 676	276.32	247 676
2019/2020	324.78	232 954	324.78	232 954
2020/2021	459.69	152 860	413.71	128 808
2021/2022	571.02	59 910	480.54	35 860
2022/2023	571.02	59 902	480.54	35 856
2023/2024	705.93	24 040		
	385.61	777 342	317.55	962 709

Number	2018	2017
Shares available from previous period	–	9 290
Shares purchased/issued during the year	281 555	39 934
Shares utilised for settlement of options	(281 555)	(49 224)
Shares available for settlement of options	–	–
Settled in shares	(281 555)	(49 224)
Options exercised	(281 555)	(49 224)

	2018		2017	
Analysis of outstanding SARs by year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
Financial year				
2017/2018	166.64	1 875	136.45	181 958
2018/2019	131.04	148 077	131.04	148 077
2019/2020	199.66	133 353	199.66	133 353
2020/2021	373.93	91 495	255.53	67 443
2021/2022	571.02	59 910	480.54	35 860
2022/2023	571.02	59 902	480.54	35 856
2023/2024	705.93	24 040	–	–
	319.95	518 652	203.39	602 547

39. Share option expense

Data utilised in the valuation of options granted

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

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing[1]	Risk-free rate %	Number of options outstanding	Fair value on issue/repricing date ignoring vesting conditions R'000	Expected vesting proportion[2] %	Value taking into account expected vesting proportion R'000
2012/2013	182.40	187.05	33.1	2.8	2018/2019	7.1	1 714	110	100.0	110
	198.52	206.25	32.9	2.7	2018/2019	7.2	48 877	3 544	100.0	3 544
2013/2014	201.40	217.50	32.1	3.0	2018/2019	5.6	37 500	2 484	100.0	2 484
		217.50	32.1	3.0	2019/2020	5.8	37 500	2 652	100.0	2 652
	209.83	213.50	32.1	3.0	2018/2019	7.5	8 750	587	100.0	587
		213.50	32.1	3.0	2019/2020	7.7	8 750	635	100.0	635
2014/2015	196.43	206.50	31.5	1.9	2018/2019	7.5	29 885	1 769	100.0	1 769
		206.50	31.5	1.9	2019/2020	7.7	29 891	1 936	100.0	1 936
	253.82	288.32	31.2	1.9	2018/2019	6.6	28 000	2 627	100.0	2 627
		288.32	31.2	1.9	2019/2020	6.8	28 000	2 848	100.0	2 848
2015/2016	539.88	598.04	31.3	1.2	2018/2019	7.3	8 875	1 703	100.0	1 703
		598.04	31.3	1.2	2019/2020	7.5	8 875	1 950	100.0	1 950
		598.04	31.3	1.2	2020/2021	7.7	8 875	2 162	100.0	2 162
	371.88	535.00	27.3	1.7	2018/2019	6.8	84 075	18 182	100.0	18 182
		535.00	27.3	1.7	2019/2020	6.9	84 071	19 456	100.0	19 456
		535.00	27.3	1.7	2020/2021	7.1	84 070	20 574	100.0	20 574
2016/2017	473.05	573.08	36.1	2.3	2019/2020	7.5	33 264	6 820	100.0	6 820
		573.08	36.1	2.3	2020/2021	7.7	33 260	7 507	100.0	7 507
		573.08	36.1	2.3	2021/2022	7.8	33 257	8 066	100.0	8 066
		573.08	36.1	2.3	2022/2023	7.9	33 253	8 531	100.0	8 531
	576.29	555.60	36.2	2.1	2019/2020	7.9	2 603	399	100.0	399
		555.60	36.2	2.1	2020/2021	8.1	2 603	466	100.0	466
		555.60	36.2	2.1	2021/2022	8.2	2 603	521	100.0	521
		555.60	36.2	2.1	2022/2023	8.3	2 603	569	100.0	569
2017/2018	705.93	761.37	24.2	1.1	2020/2021	7.3	24 052	5 053	100.0	5 053
		761.37	24.2	1.1	2021/2022	7.3	24 050	5 834	100.0	5 834
		761.37	24.2	1.1	2022/2023	7.4	24 046	6 555	100.0	6 555
		761.37	24.2	1.1	2023/2024	7.5	24 040	7 216	100.0	7 216
Grand total							777 342	140 756	100.0	140 756

(1) The remuneration committee approved changes to the performance conditions relating to share options granted in 2017/2018. These performance conditions are that the headline earnings per share (HEPS) growth must exceed the Consumer Price Index (CPI) plus the percentage growth in GDP plus 4%, and the attained ROE must out perform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50%, and is measured over a cumulative 3-year performance period. The assumption that both of the above performance conditions would be met was used to estimate the realisation of these vesting conditions . This is re-estimated in terms of IFRS 2 on an annual basis.

(2) Executive staff turnover of 0% per annum (2017:0%) was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.

40. Share appreciation rights

Data utilised in the valuation of SARs granted

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

Year granted	Strike price R[2]	Year maturing[3]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2012/2013	182.40	2018/2019	7.1	1 714	1 114	100.0	100.0	1 114
	198.52	2018/2019	7.1	48 877	30 979	98.5	100.0	30 524
2013/2014	201.40	2018/2019	7.1	37 500	23 661	98.2	100.0	23 244
		2019/2020	7.8	37 500	23 653	81.8	100.0	19 349
	209.83	2017/2018	7.1	1 875	1 167	100.0	100.0	1 167
		2018/2019	7.4	8 750	5 446	86.5	100.0	4 713
		2019/2020	7.7	8 750	5 445	72.1	100.0	3 927
2014/2015	0.01	2018/2019	7.1	10 149	8 435	97.8	100.0	8 249
			7.4	9 500	7 813	83.1	100.0	6 496
		2019/2020	7.8	10 154	8 289	78.1	100.0	6 473
			7.7	9 500	7 673	66.5	100.0	5 103
2015/2016	0.01	2018/2019	7.1	28 587	23 760	97.1	100.0	23 066
			7.4	3 000	2 467	77.5	100.0	1 913
		2019/2020	7.8	28 582	23 331	72.8	100.0	16 992
			7.7	3 000	2 423	58.2	100.0	1 409
		2020/2021	7.6	28 580	22 912	58.2	100.0	13 344
			7.7	3 000	2 380	46.5	100.0	1 106
2016/2017	473.05	2019/2020	7.8	33 264	12 731	63.7	100.0	8 116
		2020/2021	7.6	33 260	13 438	47.8	100.0	6 420
		2021/2022	7.7	33 257	14 116	38.2	100.0	5 396
		2022/2023	7.7	33 253	14 686	31.9	100.0	4 679
	576.29	2019/2020	7.8	2 603	792	55.8	100.0	442
		2020/2021	7.7	2 603	878	41.8	100.0	367
		2021/2022	7.7	2 603	950	33.5	100.0	318
		2022/2023	7.8	2 603	1 013	27.9	100.0	282
2017/2018	705.93	2020/2021	7.6	24 052	5 987	30.5	100.0	1 823
		2021/2022	7.7	24 050	6 915	22.8	100.0	1 578
		2022/2023	7.7	24 046	7 664	18.3	100.0	1 400
		2023/2024	7.8	24 040	8 318	15.2	100.0	1 266
Grand total				518 652	288 436	69.4	100.0	200 276
Note								17

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

Dividend yield	*1.79%*
*Volatility**	*32.05%*
Ex dividend share price	*R823.01*

(2) As from the 2016 financial year:
SARs are granted at a strike price equal to the 30-day weighted average share price up to and including the day before the resolution granting the respective SARs was passed. There is a fixed ratio between the number of SARs and share options granted.

(3) The remuneration committee approved changes to the performance conditions relating to share appreciation rights granted in 2017/2018. These performance conditions are the HEPS growth must exceed the CPI plus the percentage growth in GDP plus 4%, and the attained ROE must out perform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50%, and is measured over a cumulative 3-year performance period.

(4) Executive staff turnover of 0% per annum. (2017: 0%) was used to estimated likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.

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

R'000	Notional Foreign	Notional ZAR	Fair values Assets	Fair values Liabilities

41. Derivative financial instruments: economic hedges

R'000	Foreign	ZAR	Assets	Liabilities
2018				
Forward foreign exchange contracts – USD	**1 921**	**35 461**	**–**	**12 820**
Forward foreign exchange contracts – EUR	**7 000**	**109 030**	**–**	**3 210**
Total		**144 491**	**–**	**16 030**
2017				
Forward foreign exchange contracts – USD	4 225	74 986	–	17 974

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions.

42. Derivative financial instruments: cash flow hedges

R'000	Notional USD	Notional ZAR	Fair values Assets	Fair values Liabilities
2018				
Interest rate swaps[1]	**–**	**3 766 000**	**(129)**	**38 546**
Net	**–**	**3 766 000**	**(129)**	**38 546**
2017				
Interest rate swaps	–	3 896 000	(7 038)	27 624
Cross-currency interest rate swaps	30 000	343 500	(51 074)	–
Net	30 000	4 239 500	(58 112)	27 624

[1] *As at 28 February 2018, R25.1 million was placed as collateral with Standard Charters with regard to the interest rate swaps.*

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2018					
Discounted swap cash flows	**296**	**4 532**	**14 728**	**18 861**	**38 417**
Net	**296**	**4 532**	**14 728**	**18 861**	**38 417**
2017					
Discounted swap cash flows	(226)	2 097	7 498	11 217	20 586
Discounted cross-currency interest rate swap cash flows	–	4 988	(56 062)	–	(51 074)
Net	(226)	7 085	(48 564)	11 217	(30 488)

Gains and losses recognised in comprehensive income (note 20) on swap contracts will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

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

Cross currency interest rate swaps matured at 27 February 2017. No further investments were made in foreign currencies, hence no further cross currency swaps were entered into during the 2018 financial year.

At 28 February 2018, the fixed interest rates were between 6.59% and 8.51% (2017: 6.355% and 12.17%) and the floating rates were based on forecast 3-month JIBAR and LIBOR rates at 28 February 2018.

The fair value adjustment transferred to the income statement amounted to a cost of R80 million (2017: R107.9 million) and has been included in interest expense and other operating expenses in the income statement. No gains and losses on ineffective portions of such derivatives were recognised in the income statement in 2018 and 2017. There were no transactions for which cash flow hedge accounting had to be discontinued in 2018 and 2017 as a result of highly probable cash flow no longer being expected to occur.

Statutory information

	Shares held Number	Shareholding %

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

2018

Shareholder		
PSG Financial Services Limited	35 484 898	30.69
Public Investment Corporation SOC	8 321 871	7.20
Limietberg Sekuriteit Proprietary Limited	7 297 063	6.31

	Shares held Number	Shareholding %

Black economic empowerment shareholding

2018

Shareholder		
Lebashe Investment Group Proprietary Limited (Previously known as Petratouch Proprietary Limited)	5 284 735	4.57
K2017134938 (South Africa) Proprietary Limited (a wholly owned subsidiary of Lebashe Investment Group Proprietary Limited)	3 125 067	2.70
Coral Lagoon Investments 194 Proprietary Limited	1 354 435	1.17
NS Mjoli-Mncube (director)	75 400	0.07
NS Mashiya (director)	748	–
NST Motjuwadi (executive)	16 874	0.01
	9 857 259	8.52

	Shares held Number	Shareholding %

Shareholding by executive management[(1)]

2018

Shareholder		
JE Carstens	31 899	0.03
W de Bruyn	95 938	0.08
HAJ Lourens	508 709	0.44
NST Motjuwadi	16 874	0.01
A Olivier	159 650	0.14
L Venter	506 320	0.44
F Viviers	4 171	–
	1 323 561	1.14

(1) *Executive directors' shareholdings are presented in the related parties note 31.*

Analysis of shareholders holding ordinary shares – 2018

	Number shareholders	% of total	Number shares	% of interest
1 – 1 000	11 737	87.31	1 704 833	1.47
1 001 – 10 000	1 266	9.42	4 067 012	3.52
10 001 – 100 000	344	2.56	10 211 236	8.83
100 001 and over	96	0.71	99 643 910	86.18
	13 443	**100.00**	**115 626 991**	**100.00**
Shareholder spread				
Public shareholders	**13 420**	**99.83**	**62 742 834**	**54.27**
Holdings less than 5%	13 419	99.82	54 420 963	47.07
There are no public shareholders that hold 5% or more	1	0.01	8 321 871	7.20
Non-public shareholders excluding directors and their associates	**3**	**0.02**	**36 036 344**	**31.16**
Holdings of 5% or less	1	0.02	551 446	0.47
Trustees of the Capitec Bank Holdings Share Trust	1	0.01	315 683	0.27
Trustees of the Capitec Bank Group Employee Empowerment Trust	1	0.01	235 763	0.20
Holdings of 5% or more	1	0.01	35 484 898	30.69
PSG Financial Services Limited	1	0.01	35 484 898	30.69
Directors (refer to pages 74 to 79 for detail)	**20**	**0.15**	**16 847 813**	**14.57**
Directors of company or any subsidiaries	5	0.04	84 073	0.07
Associates of directors of company or any of its subsidiaries	15	0.11	16 763 740	14.50
	13 443	**100.00**	**115 626 991**	**100.00**

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares – 2018

	Number shareholders	% of total	Number shares	% of interest
1 – 1 000	547	70.67	135 528	10.84
1 001 – 10 000	205	26.49	659 692	52.79
10 001 – 100 000	22	2.84	454 487	36.37
100 001 and over	–		–	–
Repurchased preference shares		–		–
	774	**100.00**	**1 249 707**	**100.00**
Shareholder spread				
Public shareholders	**773**	**99.87**	**1 228 707**	**98.32**
Holdings less than 5%	772	99.74	1 148 861	91.93
There are no public shareholders that hold 5% or more	1	0.13	79 846	6.39
Non-public shareholders excluding directors and their associates	**0**	**–**	**0**	**–**
Repurchased preference shares held in Capitec account and not yet cancelled	0	–	0	–
Repurchased preference shares	0	–		–
Directors (refer to pages 74 to 79 for detail)	**1**	**0.13**	**21 000**	**1.68**
None of the directors hold preference shares		–		–
Associates of directors of company or any of its subsidiaries	1	0.13	21 000	1.68
	774	**100.00**	**1 249 707**	**100.00**

Shareholders' calendar

Financial year-end
28 February 2018

Profit announcement
Tuesday, 27 March 2018

Integrated annual report
April 2018

Annual general meeting
Friday, 25 May 2018

Interim report
September 2017

JSE code
CPI

ISIN
ZAE 000035861

Final dividend number 28 will be paid on Monday, 23 April 2018.

Salient dates for the dividend payment were:
Last day to trade cum dividend
Tuesday, 17 April 2018
Record date
Friday, 20 April 2018

Administration and addresses

Capitec Bank Holdings Limited
Registration number
1999/025903/06

Auditor
PricewaterhouseCoopers Inc.

Directors
R Stassen (Chairman)
GM Fourie (Chief executive officer)*
AP du Plessis (Chief financial officer)*
NS Mashiya*
MS du Pré le Roux
LA Dlamini (Ms)
JD McKenzie
NS Mjoli-Mncube (Ms)
PJ Mouton
CA Otto
K Makwane
JP Verster
* *Executive*

Secretary
YM Mouton (Ms)

Registered address
1 Quantum Street, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

Website
www.capitecbank.co.za

GREYMATTER & FINCH # 11568