hello

Bank Annual Report **2018**

CAPITEC
BANK

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.

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CFO report*

Banking is all about people. We enable clients to improve their financial lives through an experience that is consistently simple, affordable, accessible and personalised.

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Risk management

Our enterprise risk management framework governs risk management and aims to continuously improve our risk culture. Capitec's risk universe includes:

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

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Annual financial statements

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

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Glossary

* *The CFO ratios and numbers are based on group consolidated numbers. This does not differentiate materially from bank.*

01 CFO report

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.

Increase in headline earnings

increase in total retail fixed savings

new clients joined us in the month of January 2018

41%

Net transaction fee income to total net income

credit card book

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:

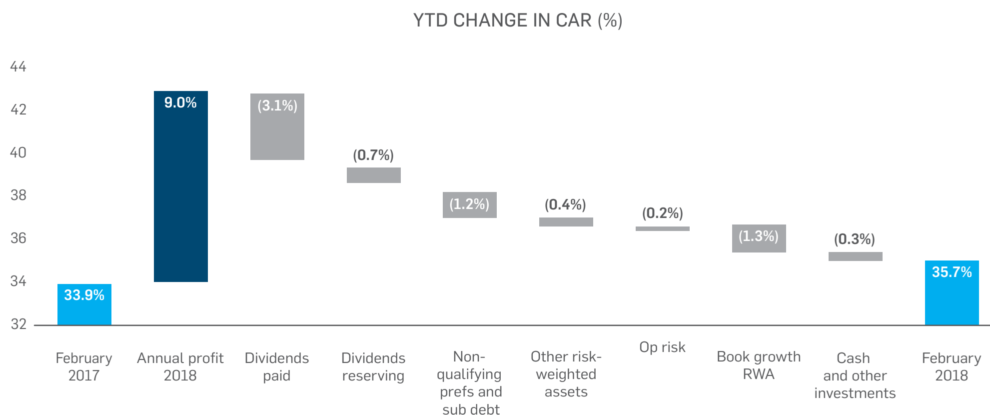
	Since listing in 2002 (%)	Last 10 years (%)	Last 5 years (%)	Last 3 years (%)	2018 (%)
Headline earnings	33	39	23	21	**18**
Headline earnings per share	27	33	20	20	**18**
Dividend	28	34	21	21	**18**
Share price	51	37	35	27	**15**

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 (%)



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).

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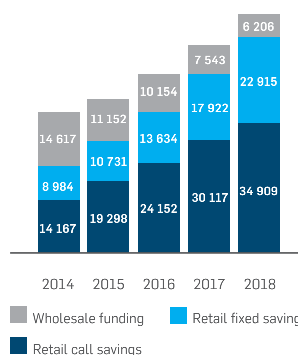
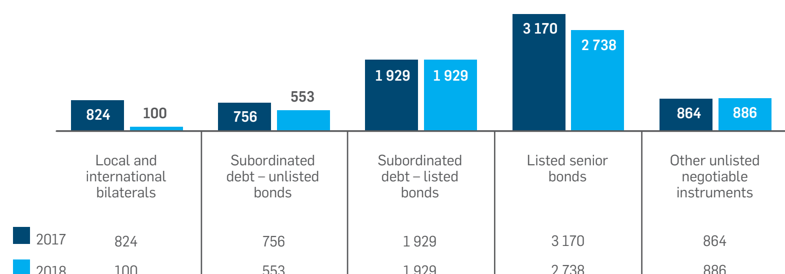
We auctioned R500 million of bonds in May 2017 that was 4.3 times over-subscribed, indicating continued strong support. We will always retain a presence in the debt capital markets.

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 bank'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 bank's audited annual financial statements.*

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

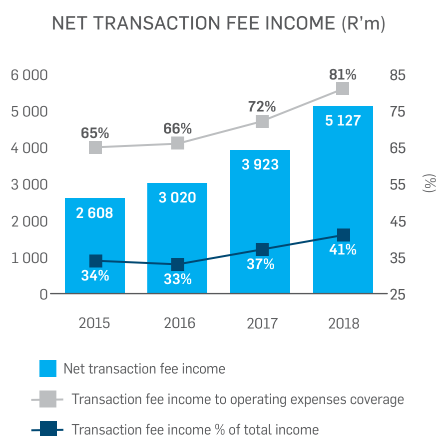
We increased our primary banking accounts on average by 31 000 per month in the 2018 financial year.

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.

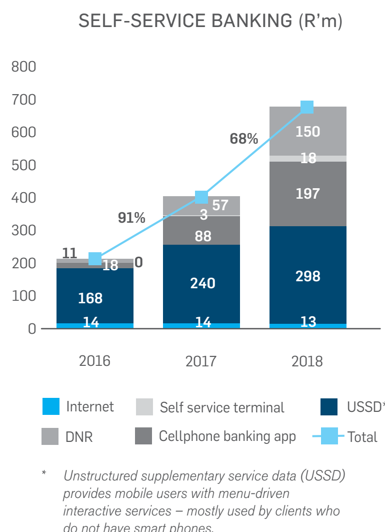
NET TRANSACTION FEE INCOME (R'm)



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.*

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

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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 bank'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.

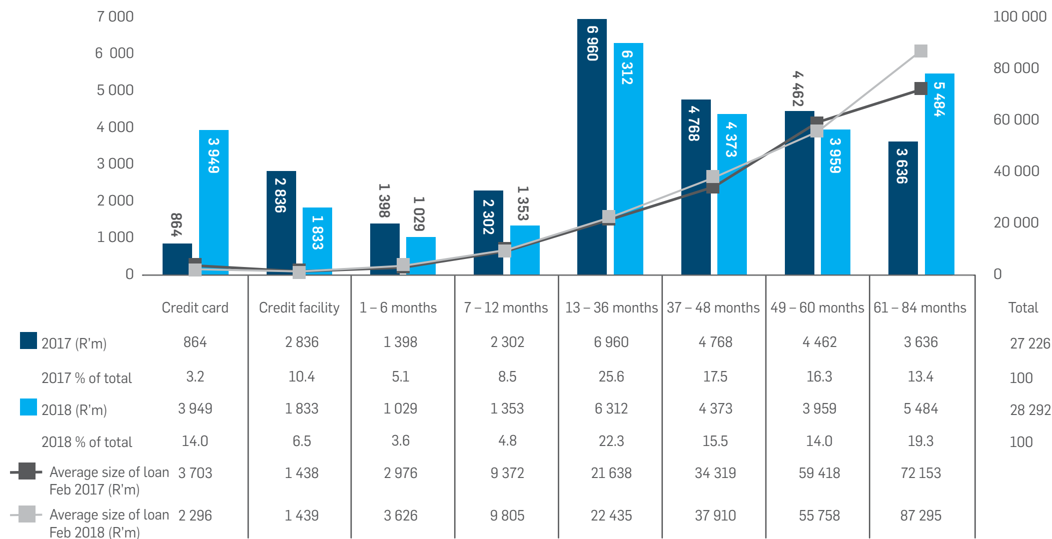
The 2018 financial year presents the first full year that our credit card has been in operation. By 28 February 2018, 289 000 credit cards were in issue, with gross loans and advances reflecting R2 billion, or 4.2% of the credit book.

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.

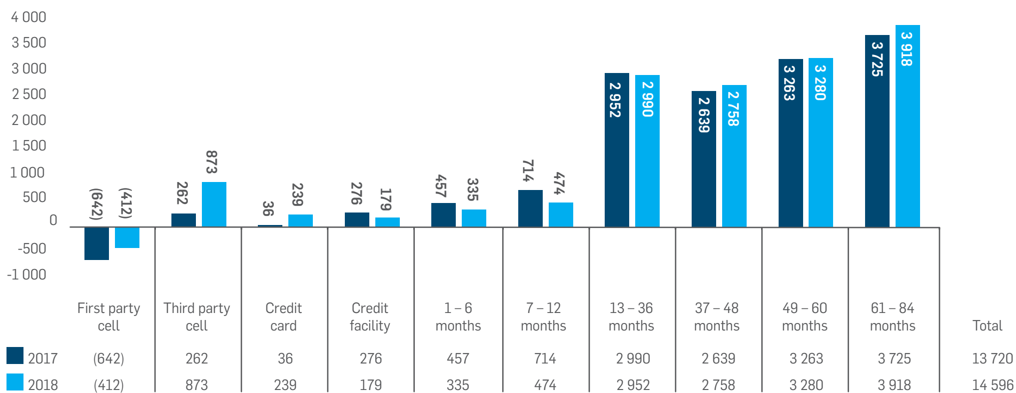
* *Denotes text that forms part of the bank's audited annual financial statements.*

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.

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.

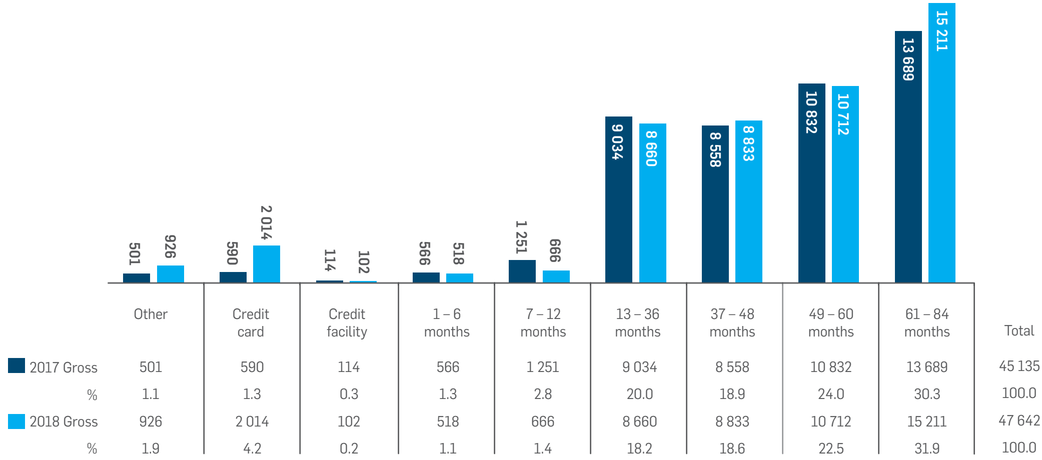
The costs incurred for every loan application are calculated and recovered through an initiation fee charged to a client who is successful in their application and takes up their loan. In terms of common practice, we charge the entire cost related to the loan application upfront when incurred. In terms 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

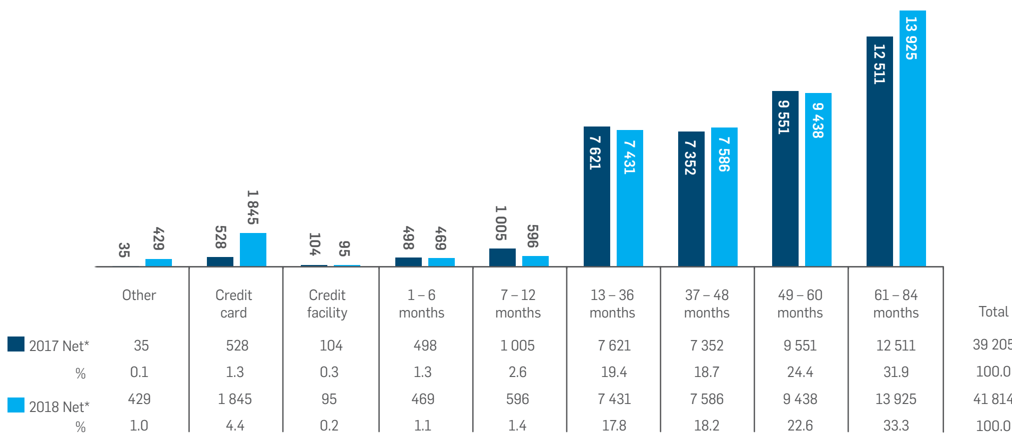
* *Interest received on loans, initiation fees, monthly service fee and net insurance income*
** *Includes bad debts recovered and early settlements where a subsequent loan is taken, the last repayment does not lead to an outflow – prior years are restated to include this*
*** *Third-party loan insurance 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

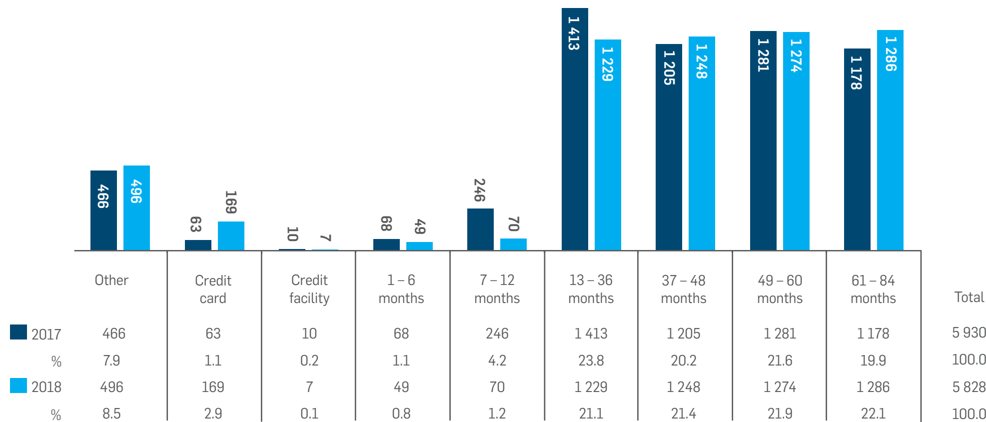
NET LOAN BOOK BY PRODUCT (R'm)



	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

	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	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

	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

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

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

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

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* 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.

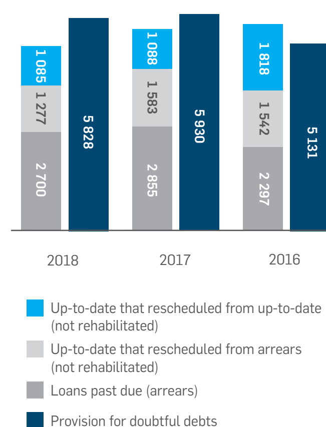
For provisioning purposes, we release the difference between the arrears provision and the rescheduling provision over a period of 12 months. Should the client default on the rescheduled loan, the client is included in CD1, but at an increased provision percentage, that reflects the escalated risk. The 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



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Bad debt written off

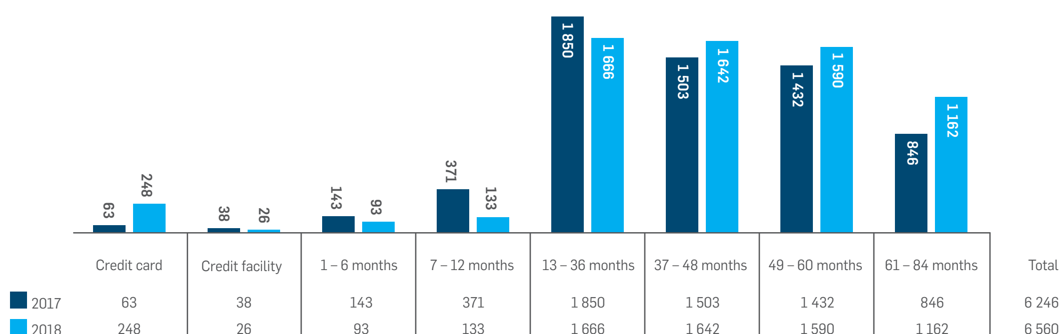
The net provision for doubtful debt charge was R5.3 billion for the year, an increase of 3% (2017: R5.1 billion) and is 11% (2017: 12%) of average gross loans and advances. The net impairment charge comprises bad debts written off, the movement in the provision for doubtful debts and bad debts recovered.

* 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*

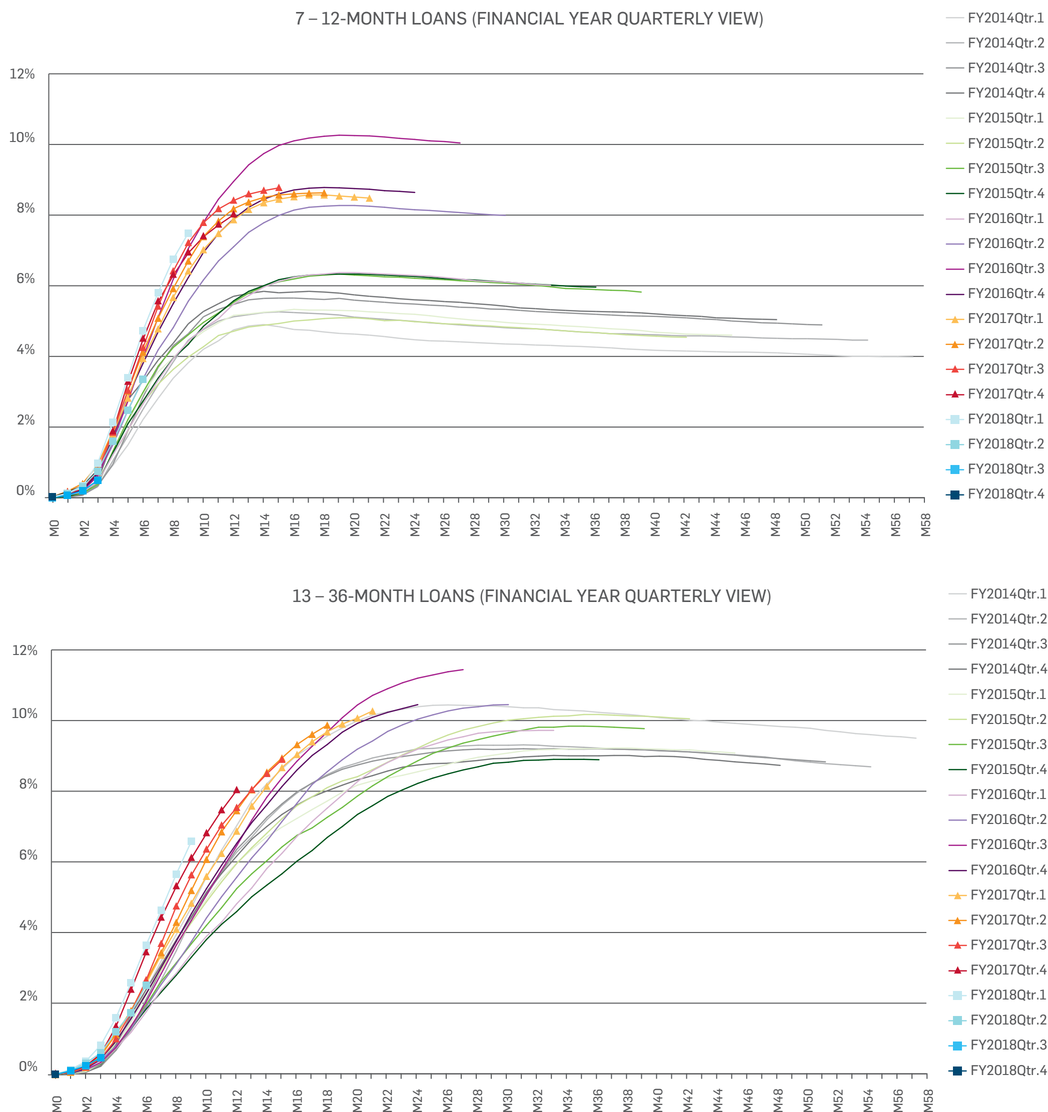
Bad debts recovered increased by 14% year on year from R1.1 billion to R1.3 billion in 2018. This increase is due to the improved efficiencies in our debt collection environment.

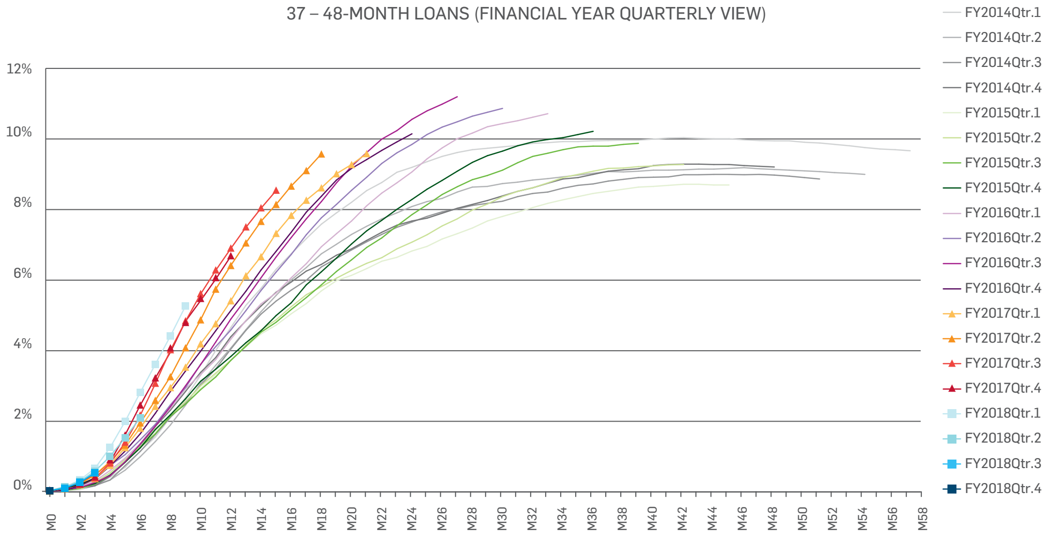
* *Denotes text that forms part of the bank's audited annual financial statements.*

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).




37 – 48-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
12%
10%
8%
6%
4%
2%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46 M48 M50 M52 M54 M56 M58
FY2014Qtr.1
FY2014Qtr.2
FY2014Qtr.3
FY2014Qtr.4
FY2015Qtr.1
FY2015Qtr.2
FY2015Qtr.3
FY2015Qtr.4
FY2016Qtr.1
FY2016Qtr.2
FY2016Qtr.3
FY2016Qtr.4
FY2017Qtr.1
FY2017Qtr.2
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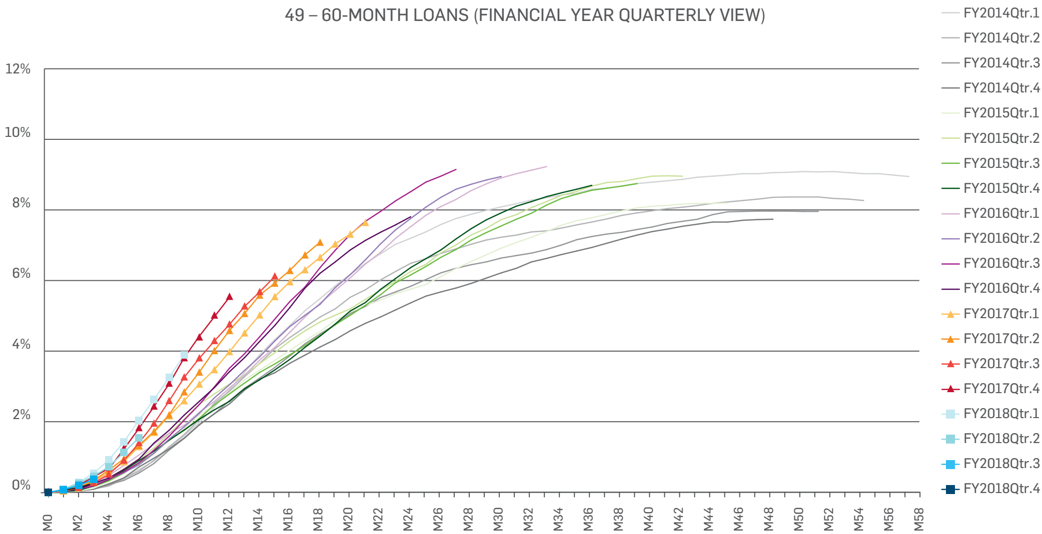
FY2018Qtr.2
FY2018Qtr.3
FY2018Qtr.4


49 – 60-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
12%
10%
8%
6%
4%
2%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46 M48 M50 M52 M54 M56 M58
FY2014Qtr.1
FY2014Qtr.2
FY2014Qtr.3
FY2014Qtr.4
FY2015Qtr.1
FY2015Qtr.2
FY2015Qtr.3
FY2015Qtr.4
FY2016Qtr.1
FY2016Qtr.2
FY2016Qtr.3
FY2016Qtr.4
FY2017Qtr.1
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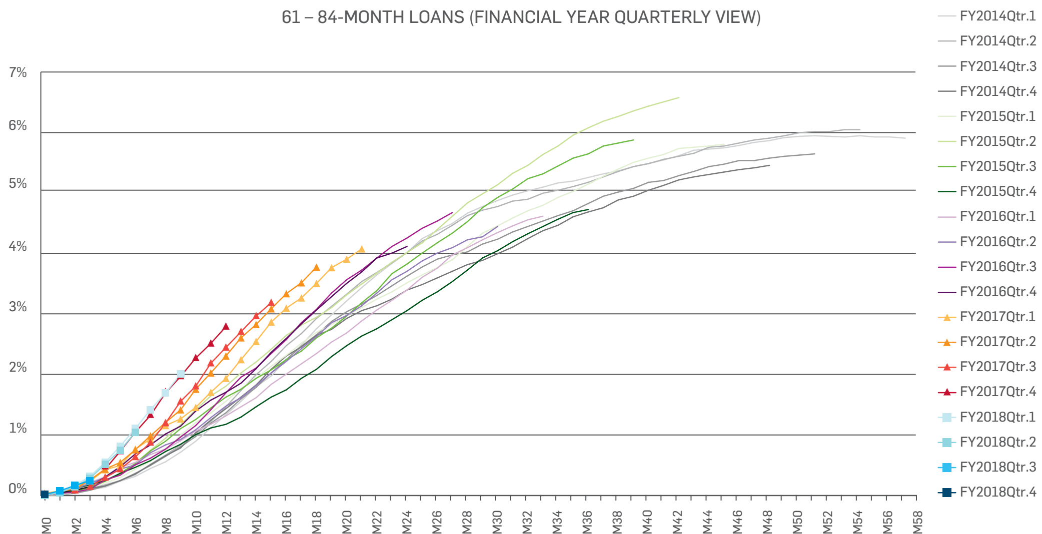
FY2018Qtr.1
FY2018Qtr.2
FY2018Qtr.3
FY2018Qtr.4


61 – 84-MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)
7%
6%
5%
4%
3%
2%
1%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46 M48 M50 M52 M54 M56 M58
FY2014Qtr.1
FY2014Qtr.2
FY2014Qtr.3
FY2014Qtr.4
FY2015Qtr.1
FY2015Qtr.2
FY2015Qtr.3
FY2015Qtr.4
FY2016Qtr.1
FY2016Qtr.2
FY2016Qtr.3
FY2016Qtr.4
FY2017Qtr.1
FY2017Qtr.2
FY2017Qtr.3
FY2017Qtr.4
FY2018Qtr.1
FY2018Qtr.2
FY2018Qtr.3
FY2018Qtr.4

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

02 Risk management

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

RDARR principles adopted

We adhere to the Basel 3 standards

Information security is based on ISO 27001/2 standards

capital adequacy ratio: a strong capital base to support growth

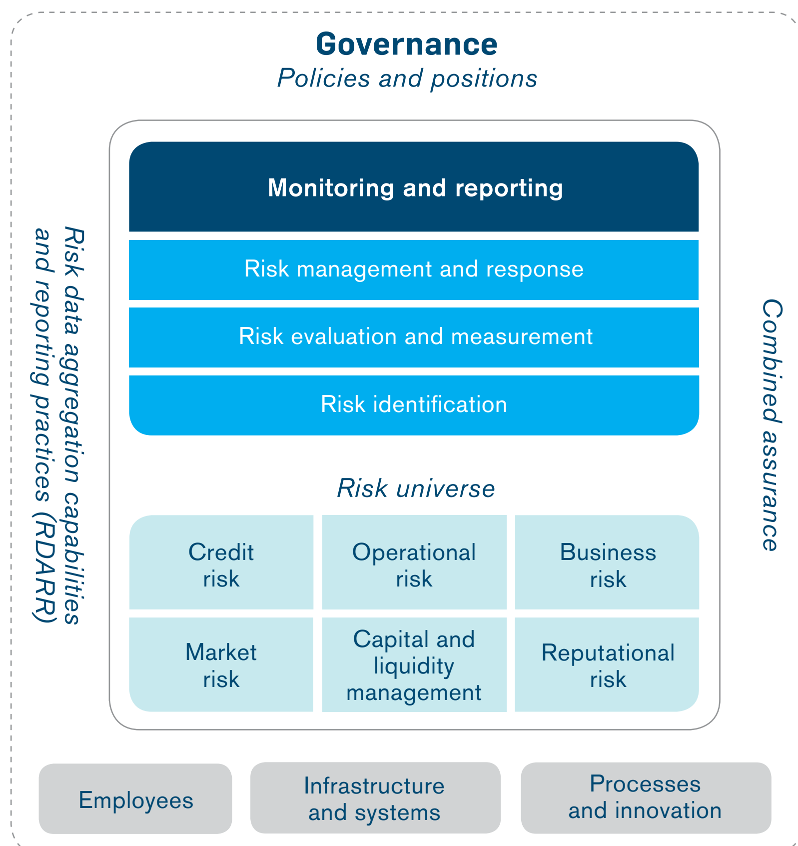
Risk management approach and oversight

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.

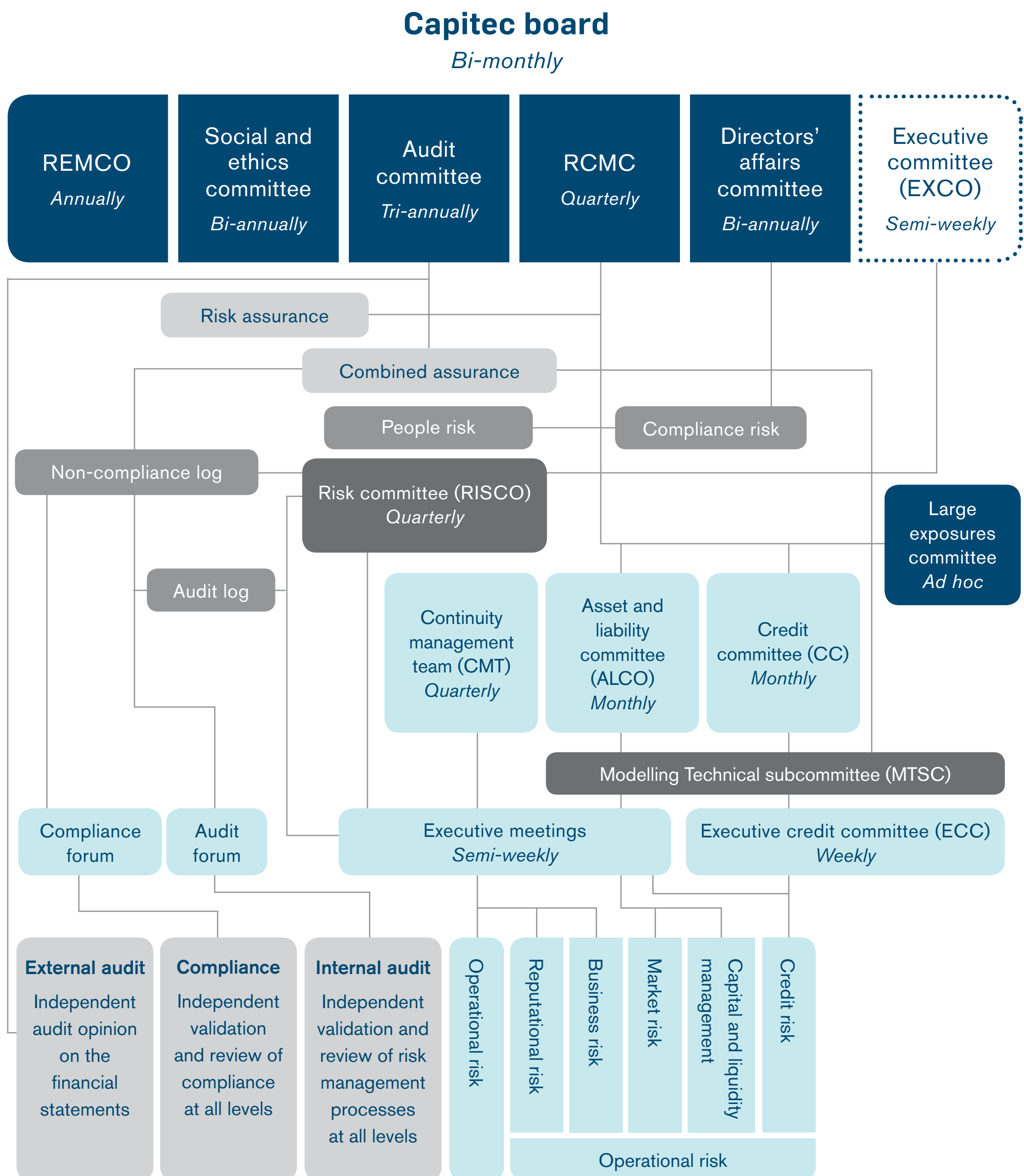


The board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board mandated the RCMC to oversee risk management according to a board-approved charter. The RCMC is composed of executive and non-executive 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 bank'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 bank'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 bank, 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 bank 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 bank, 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 bank'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.

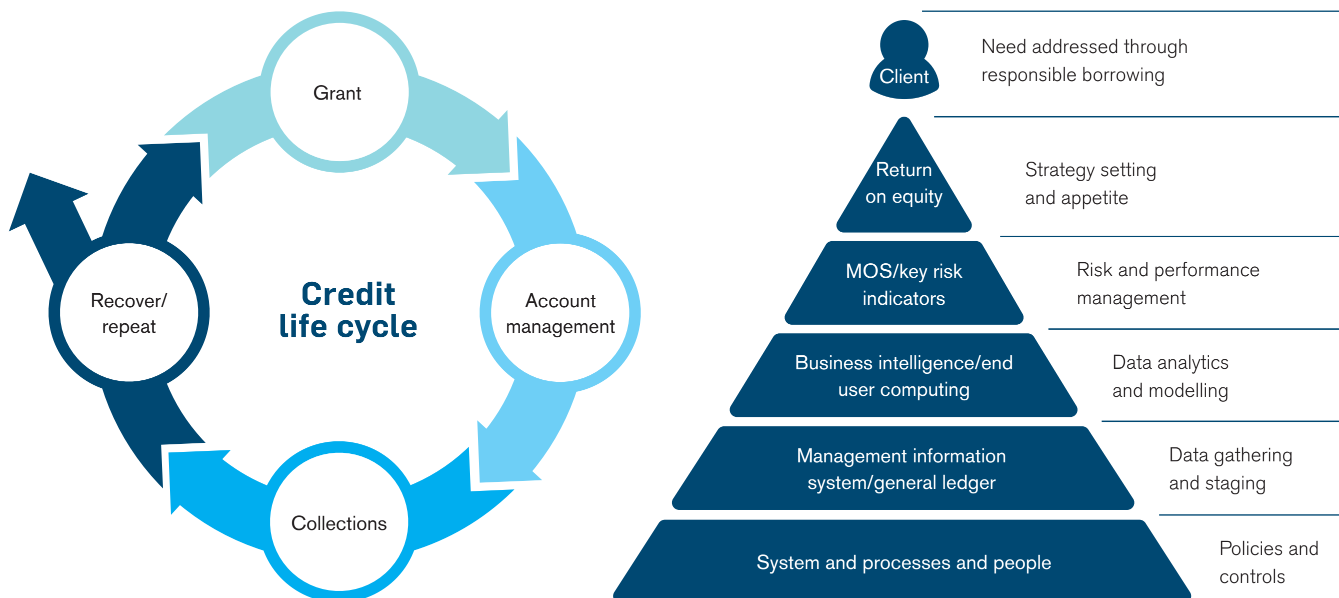
In supporting the board, and audit committee in particular, the internal assurance providers, risk management, compliance and internal audit, are collaborating on combined assurance initiatives to effectively cover the bank's significant risks and material matters.

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 bank'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 bank'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 bank'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.

*

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 bank's audited annual financial statements.*

Analysis of regulatory credit exposure

Basel 3 exposure categories R'000	Average gross exposure[1]		Average gross period-end exposure[2][4]		Exposure post risk mitigation[2][3][4]		Risk weights[5]
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017	(%)
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 in the group's integrated annual report.

Under the direction of the enterprise risk management framework and the risk committee, our aim is to help the bank 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 bank. 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.

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 in the group's integrated annual report.

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 report from page 2 and in the section on how we measure success in the group's integrated annual report.

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 bank's audited annual financial statements.*

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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 bank 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 bank 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 bank 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 bank is the credit insurance described above.

The credit insurance contracts offered by the bank is to its loan clients is through a cell captive arrangement underwritten by a cell captive insurer. The bank 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 bank 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 bank (see accounting policy 2.15 in the annual financial statements) due to the contractual requirement imposed on the bank to maintain the solvency of the cell. To mitigate this insurance risk, the bank 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 bank essentially being the reinsurer of last resort should the reinsurers not honour the reinsurance contract and the bank 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 bank 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 bank 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 bank 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 bank's audited annual financial statements.*

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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.

*

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.

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.

* *Denotes text in the risk management report that forms part of the bank'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

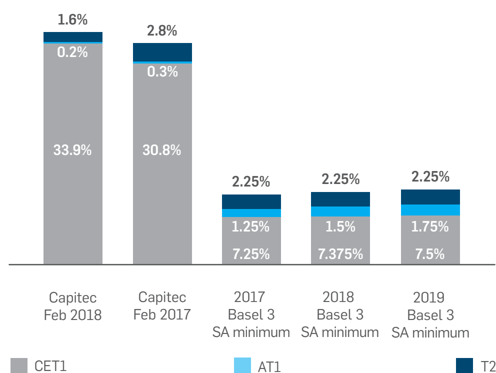
Basel 3 sets the minimum standards required to comply with the longer-term prudential liquidity ratio. We calculate our regulatory capital requirement for credit and operational risk by using a percentage applied to the risk-weighted assets of the business. Various methods are used to calculate risk 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).

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

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 bank 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.



- **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

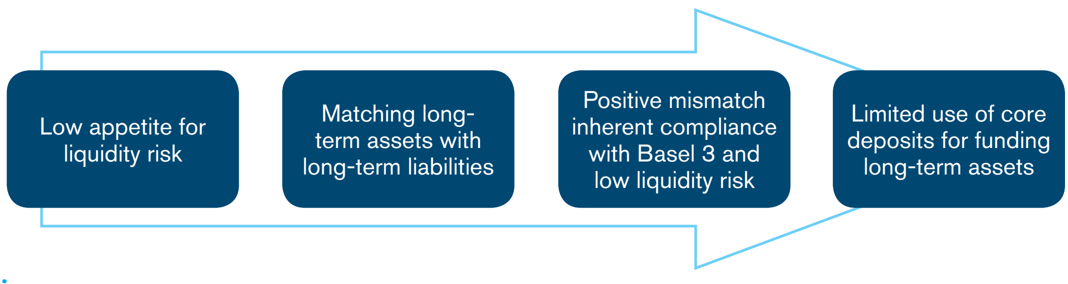
Given Capitec's simple structure and the fact that all the operations are in South Africa, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act. Subordinated debt issued by Capitec Bank is 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



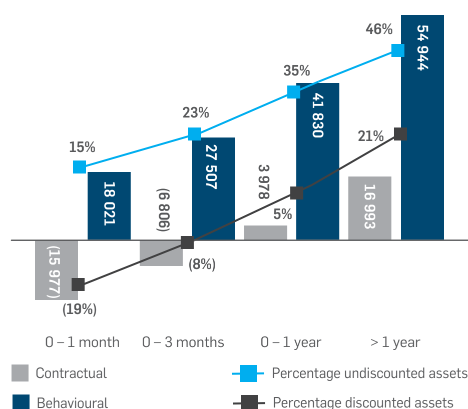
For cash planning purposes, we use the contractual mismatch and not the behaviour mismatch.

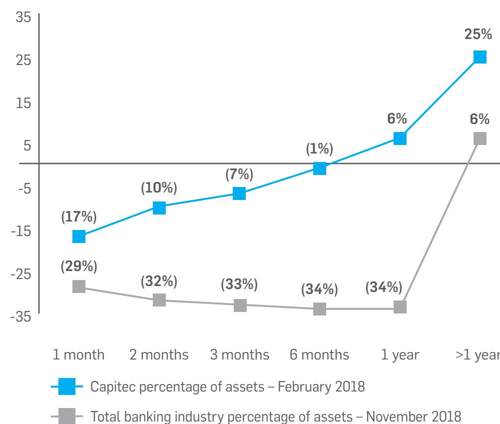
Contractual and behavioural liquidity mismatches

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 bank's audited annual financial statements.*





The Liquidity Coverage Ratio (LCR)

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

	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 2 and in the audited annual financial statements from page 50.

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 in the group's integrated annual report.

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.

03 *Annual financial statements*

dividend per share

shares in issue

shareholding by executive management

black economic empowerment shareholding

no client accounts for more than 10% of revenue

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

Statement of responsibility by the board of directors

Capitec Bank Limited ('the bank' or 'Capitec Bank' or 'the company')

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Capitec Bank Limited. The annual financial statements, comprising the statement of financial position at 28 February 2018, income statement, statements of comprehensive income, statement of changes in equity, statement 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 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 company to enable the directors to ensure that the financial statements comply with relevant legislation.

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

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

The company's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on page 55.

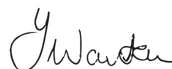
The annual financial statements set out on pages 61 to 124 were approved by the board of directors and signed on its behalf on 26 March 2018 by:

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Limited, that for the year ended 28 February 2018, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.



Yolande Mouton
Stellenbosch

26 March 2018

Audit committee report

Capitec Bank Limited

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

The committee comprises 3 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 company'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 .

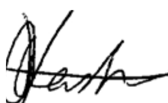
The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 28 February 2018.

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 auditors
- 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 company financial statements for the year ended 28 February 2018 and, based on the information provided to the committee, considers that the company complies, in all material respects, with the requirements of the Companies Act, Code of Corporate Practice and Conduct and IFRS
- Undertook the prescribed functions (in terms of section 94(7) of the Companies Act on behalf of the company.

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 company's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties
- The committee approved the internal audit charter and the annual audit plan
- The committee met with the external auditors and with the head of the internal audit function without management being present
- The committee satisfied itself in terms of the JSE Listings Requirements 3.84(g)(i) that the bank 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 annual report to shareholders for the year ended 28 February 2018.

Nature of the business

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

Review of operations

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

Share capital

No ordinary shares were issued during the year ended 28 February 2018, bringing the number of shares in issue to 1 300 000 (February 2017: 1 300 000).

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	**607 042**	520 321
Final	**1 092 675**	925 016
Preference dividend (cents per share)		
Interim	**6 730**	8 464
Final	**5 293**	7 258

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.

Directors

The directors of the company during the reporting period and as at the reporting date are as follows:

- MS du Pré le Roux
- GM Fourie (Chief executive officer)
- AP du Plessis (Chief financial officer)
- NS Mashiya
- LA Dlamini
- JD McKenzie
- NS Mjoli-Mncube
- K Makwane
- PJ Mouton
- CA Otto
- R Stassen (Chairman)
- JP Verster

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

Company secretary

The company secretary during the reporting period and as at the reporting date is as follows:

- YM Mouton

Independent auditor's report

To the Shareholders of Capitec Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capitec Bank Limited (the Company) as at 28 February 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Limited's financial statements set out on pages 61 to 124 comprise:

- the statement of financial position as at 28 February 2018;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement 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 Limited 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 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 Company 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 materiality

- R302.4 million, which represents 5% of profit before tax.

Key Audit Matters

- 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 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 materiality	R302.4 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 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).
 	
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 27.1 (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) 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 Limited 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 financial statements and our auditor's report thereon.

Our opinion on the 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 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 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 financial statements

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

In preparing the financial statements, the directors are responsible for assessing 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 Limited for 17 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C van den Heever
Registered Auditor
Cape Town
26 March 2018

Statement of financial position

As at 28 February 2018

R'000	Notes	2018	2017
Assets			
Cash, cash equivalents and money market funds	4	**25 080 848**	18 671 294
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	**41 802 360**	39 202 053
Other receivables	8	**714 505**	870 198
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**	–
Group loans receivable	12	**182 410**	112 486
Equipment	13	**1 608 584**	1 413 773
Intangible assets	14	**283 011**	279 946
Deferred income tax asset	15	**416 936**	458 270
Total assets		**84 850 406**	73 348 966
Liabilities			
Derivative liabilities	38, 39	**51 365**	45 598
Current income tax liability		**–**	30 341
Retail deposits*	16	**57 824 498**	48 039 220
Other liabilities	17	**2 178 883**	1 771 989
Wholesale funding*	16	**6 205 726**	7 543 051
Group loans payable	19	**–**	11 130
Provisions	18	**66 835**	81 024
Total liabilities		**66 327 307**	57 522 353
Equity			
Capital and reserves			
Ordinary share capital and premium	20	**6 105 981**	6 105 981
Cash flow hedge reserve	21	**(26 737)**	(11 736)
Retained earnings		**12 331 052**	9 581 370
Share capital and reserves attributable to ordinary shareholders		**18 410 296**	15 675 615
Non-redeemable, non-cumulative, non-participating preference share capital and premium	20	**112 803**	150 998
Total equity		**18 523 099**	15 826 613
Total equity and liabilities		**84 850 406**	73 348 966

** 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.

Income statement

Year ended 28 February 2018

R'000	Notes	2018	2017
Lending, insurance and investment income	22	**17 266 028**	16 070 739
Interest income	22	**15 473 176**	14 933 918
Loan fee income	22	**919 328**	874 938
Net insurance income	9	**873 524**	261 883
Lending and investment expenses		**(4 597 316)**	(4 194 266)
Interest expense	22	**(4 184 449)**	(3 551 821)
Loan fee expense	22	**(412 867)**	(642 445)
Net lending, investment and insurance income		**12 668 712**	11 876 473
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
Net provision for doubtful debts charge	23	**(5 279 990)**	(5 121 177)
Other (expense)/income		**(1 389)**	54
Net income		**12 514 376**	10 678 773
Operating expenses		**(6 464 875)**	(5 591 429)
Operating profit before tax	24	**6 049 501**	5 087 344
Income tax expense	25	**(1 655 989)**	(1 390 435)
Profit for the year		**4 393 512**	3 696 909

Statement of other comprehensive income

Year ended 28 February 2018

R'000	Notes	2018	2017
Profit for the year		**4 393 512**	3 696 909
Other comprehensive income that will be reclassified to profit or loss for the year		**(15 001)**	(75 883)
Cash flow hedge recognised during the year	21	**59 116**	(211 809)
Cash flow hedge reclassified to profit and loss for the year	21	**(79 951)**	107 867
Income tax relating to cash flow hedge	21	**5 834**	28 059
Total comprehensive income for the year		**4 378 511**	3 621 026

Statement of changes in equity

Year ended 28 February 2018

R'000	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Retained earnings	Total
COMPANY					
Balance at 29 February 2016	6 105 981	173 894	64 147	7 206 764	13 550 786
Total comprehensive income for the year	–	–	(75 883)	3 696 909	3 621 026
Ordinary dividend	–	–	–	(1 306 584)	(1 306 584)
Preference dividend	–	–	–	(15 719)	(15 719)
Preference shares repurchased	–	(22 896)	–	–	(22 896)
Balance at 28 February 2017	**6 105 981**	**150 998**	**(11 736)**	**9 581 370**	**15 826 613**
Total comprehensive income for the year	**–**	**–**	**(15 001)**	**4 393 512**	**4 378 511**
Ordinary dividend	**–**	**–**	**–**	**(1 631 807)**	**(1 631 807)**
Preference dividend	**–**	**–**	**–**	**(12 023)**	**(12 023)**
Preference shares repurchased	**–**	**(38 195)**	**–**	**–**	**(38 195)**
Balance at 28 February 2018	**6 105 981**	**112 803**	**(26 737)**	**12 331 052**	**18 523 099**
Notes	20	20	21		

Statement of cash flows

Year ended 28 February 2018

R'000	Notes	2018	2017
Cash flow from operating activities			
Cash flow from operations	30	**13 535 852**	10 869 480
Income taxes paid	31	**(1 746 316)**	(1 387 989)
		11 789 536	9 481 491
Cash flow from investing activities			
Purchase of equipment	13	**(628 656)**	(771 308)
Proceeds from disposal of equipment		**14 840**	9 075
Purchase of intangible assets	14	**(142 943)**	(217 052)
Loans to group companies		**(69 928)**	(3 306)
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	11	**–**	(100 000)
Movement in money market unit trusts		**(13 895)**	5 924
Disposal of investments at fair value through profit or loss and money market unit trusts		**–**	–
		(3 088 756)	(2 180 649)
Cash flow from financing activities			
Loans from group companies		**(11 130)**	(5 206)
Preference shares repurchased	20	**(38 195)**	(22 896)
Issue of institutional bonds and other funding		**500 000**	774 070
Redemption of institutional bond and other funding		**(1 110 000)**	(2 207 897)
Dividends paid	32	**(1 645 796)**	(1 322 832)
		(2 305 121)	(2 784 761)
Net increase in cash and cash equivalents		**6 395 659**	4 516 081
Cash and cash equivalents at the beginning of the year		**18 664 439**	14 148 358
Cash and cash equivalents at the end of the year	4	**25 060 098**	18 664 439

Notes to the annual financial statements

Year ended 28 February 2018

1. General information

1.1 Nature of business

The company's main business is retail banking.

1.2 Review of operations

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

The company's earnings attributable to shareholders amounted to R4 393.5 million (2017: R3 696.9 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is presented in the directors report.

1.4 Company details

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

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

2. Accounting policies

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

2.1 Basis of preparation

The company's 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 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.

Refer to note 2.19 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 bank'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.

2.2 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, 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 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. 70% of the balance is available without requiring prior regulatory approval.

2.3 Financial instruments

The bank 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 bank has transferred substantially all risks and rewards of ownership.

Management determines the categorisation of its financial instruments at initial recognition.

2.3.1. Financial assets

(a) Financial instruments designated at fair value through profit or loss

This category has 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 bank commits to purchase or sell the asset.

Gains and losses on financial assets at fair value through profit or loss are measured as the difference between the fair values and the carrying amounts adjusted for dividend income (2.15.4), 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 bank'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.

2. Accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1. Financial assets (continued)

(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.

They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the advance. Included within this category are:

(i) loans and advances to clients that are recognised when funds are advanced to the borrowers and are carried at amortised cost using the effective interest rate method;

(ii) fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the bank 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; and

(iii) group loans receivable and other receivables.

(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.

2.3.2. Financial liabilities

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

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

2.3.3. 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 bank designates certain derivatives as:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) economic hedges if not qualifying in terms of the accounting criteria classified as fair value through profit or loss.

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

Treatment of hedges qualifying as cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within other operating expenses as well as 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 39 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.

2. Accounting policies (continued)

2.3 Financial instruments (continued)

2.3.3. Derivative financial instruments and hedging activities (continued)

Treatment of hedges qualifying as cash flow hedges (continued)

The bank documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in shareholders' equity are shown in note 21.

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 38.

2.4 Impairment of advances

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

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

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

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

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

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

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

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

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

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

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

2.4.1. *Identified impairment*

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

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

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

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

- Loans and advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and stratified between default statistics, is performed in order to develop a historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- Clients in arrears by more than 3 months 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.

2.4.2. *Incurred but unidentified impairment*

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

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

Loans and advances impaired on this basis are reflected as loans not past due.

2.4.3. *Loan write-offs*

Clients (and the related provision for doubtful debts) are substantially written off at the earliest of when they are in arrears for more than 3 months or legal hand-over occurs. The estimated recoveries, discounted at the contractual rates, are recognised in gross loans and advances, as expected recoveries receivable.

2. Accounting policies (continued)

2.5 Interest-free loans granted

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

2.6 Current tax

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

2.7 Deferred tax

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

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

Deferred tax assets and liabilities are only offset when there is both a legal right to set off and an intention to settle on a net basis.

2.8 Equipment

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

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

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

• Automated teller machines	10 years
• Banking application hardware	3 – 5 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.

2.9 Computer software

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

Costs associated with developing and maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and unique systems controlled by the bank, 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.

2.10 Impairment of non-financial assets

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

2.11 Share capital

2.11.1. Categories of share capital

Authorised share capital consists of:

- ordinary shares;
- non-redeemable, non-cumulative, non-participating preference shares; and
- compulsorily convertible or written off, non-redeemable, non-cumulative, non-participating preference shares.

2.11.2. Share issue costs

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

2.11.3. Dividends declared

Dividends on ordinary shares and preference shares are recognised in equity in the period in which they have been approved by the directors. Dividends for the year that are declared after the statement of financial position date are dealt with in the directors' report.

2. Accounting policies (continued)

2.12 Employee benefits

2.12.1. Pension obligations

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

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

2.12.2. Share-based compensation

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

2.12.3. Performance incentive scheme

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

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

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

2.13 Foreign currency translation

2.13.1. Functional and presentation currency

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

2.13.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into Rand at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

2.14 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 bank has provided capital to the third party cell captive and allows the bank 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 bank to participate in the insurance profits generated in terms of insurance policies sold to the bank's loan clients. The bank's participation is restricted to the results of the insurance business, which is placed with the licensed cell captive insurer. The bank also earns interest on the capital and retained profits in the cell.

The cell captive arrangement exposes the bank to insurance risk on the reinsured and retained insurance risk components in the cell captive. The bank'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 bank'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 bank's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the bank'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 regard to the claims that will be made by customers, which are dependent on a number of unpredictable factors. The bank makes this judgement based on the best estimate and in accordance with Standards of Actuarial Practice ("SAP") 104 principles.

The net insurance receivable as with the investment in the cell captive arrangement is disclosed as a non-current asset.

2.15 Revenue recognition

2.15.1. Interest income and expense

Interest income and expenses 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 bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

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

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

2.15.2. 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.

2.15.3. 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 Bank's branch, ATM and POS networks, along with the various electronic banking channels that the Bank has, namely the banking app, USSD and internet banking platform.

2. Accounting policies (continued)

2.15 Revenue recognition (continued)

2.15.4. 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.

2.15.5. Net insurance income

Net insurance income represents the movement before distributions paid to the bank in the net insurance receivable and comprises insurance profits from the cell captive business after reinsurance.

2.16 Segment reporting

The executive management committee, headed by the CEO, has been identified by the bank as the chief operating decision maker ('CODM'), which is responsible for assessing the performance and allocation of resources of the bank.

The bank 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 bank derives its revenue from. These include:

- transactional banking services, of which transaction fee income is disclosed on the face of the 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 22.

2.17 Leases

2.17.1. Where the bank is the lessee

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

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

2.17.2. Where the bank is the lessor

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

2.18 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 20.

2.19 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 bank's accounting period beginning on or after 1 March 2018 or later period but, which the bank has not early adopted, as follows:

Standard	Impact
IFRS 17 – Insurance contracts (effective 1 March 2021) and the amendment to IFRS 4 (effective 1 March 2018)	Unknown The bank 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 bank 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 bank, the activities that generate revenue were assessed in determining whether they fall within the scope of the new revenue standards. The bank 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 bank 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.
Amendment to IFRS 7 – Financial Instrument Disclosures (effective 1 March 2018)	High As part of the bank'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.

2. Accounting policies (continued)

2.19 Standards, interpretations and amendments to published standards that are not yet effective (continued)

<table>
<tr><th>Title</th><th>Impact</th></tr>
<tr><td>IFRS 9: Financial instruments and associated amendments (effective 1 March 2018)</td><td>High

The bank 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 bank 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 bank'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 bank does not have any such liabilities. The new hedging rules are also not expected to impact the bank.

The bank has identified that the most significant impact that IFRS 9 will have on the bank 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 bank is in the process of finalising the quantification phase of the ECL project. The impact of IFRS 9 on the bank is expected to be finalised within Q1 of financial year 2019 and will be communicated to the market prior to the bank releasing its interim results.</td></tr>
</table>

3. Critical accounting estimates and judgements in applying accounting policies

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

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

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 bank 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 is 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 bank.

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 27.1 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	2018	2017

4. Cash, cash equivalents and money market funds

	2018	2017
Cash on hand	**3 472 067**	3 091 691
Bank balances	**15 683 690**	12 166 769
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	**25 060 098**	18 664 439
Money market unit trusts[1]	**20 750**	6 855
Total cash, cash equivalents and money market funds	**25 080 848**	18 671 294
Maximum exposure to credit risk	**25 080 848**	18 671 294
Current	**25 080 848**	18 671 294

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

	2018	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 27.1 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

	2018	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 27.1 for ratings.)*

7. Net loans and advances

R'000	2018	2017
Maturity analysis		
Current (less than 1 year)	16 718 015	15 359 699
Demand to 1 month	2 132 063	1 995 287
1 to 3 months	2 870 556	2 636 689
3 months to 1 year	11 715 396	10 727 723
Non-current (more than 1 year)	31 589 925	30 491 475
1 to 2 years	13 484 033	12 378 811
2 to 5 years	17 640 835	17 400 193
More than 5 years	465 057	712 471
Total	48 307 940	45 851 174
Loan origination fees	(677 485)	(718 744)
Gross loans and advances	47 630 455	45 132 430
Term loans and credit facility	45 616 341	44 542 554
Credit card	2 014 114	589 876
Provision for doubtful debts	(5 828 095)	(5 930 377)
Net loans and advances[1]	41 802 360	39 202 053
Maximum exposure to credit risk		
Loans and advances	48 307 940	45 851 174
Retail loan commitments[2]	796 274	457 610
Maximum exposure to credit risk	49 104 214	46 308 784

[1] *The bank 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 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. 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 bank when discussing 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 the bank 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 bank 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 bank 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

BANK								
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	41 661 660	1 085 352	42 747 012	1 277 234	44 024 246	2 699 936	906 273	47 630 455
Cumulated provision	(3 234 766)	(188 907)	(3 423 673)	(649 648)	(4 073 321)	(1 754 774)	–	(5 828 095)
	38 426 894	896 445	39 323 339	627 586	39 950 925	945 162	906 273	41 802 360
Provision %	7.8	17.4	8.0	50.9	9.3	65.0		12.2

Analysis of net loans and advances by status – 2017

BANK									
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	39 082 053	1 087 996	40 170 049	1 582 527	41 752 576	2 854 870	524 984	45 132 430
Cumulated provision	(3 024 728)	(166 384)	(3 191 112)	(820 757)	(4 011 869)	(1 918 508)		(5 930 377)
	36 057 325	921 612	36 978 937	761 770	37 740 707	936 362	524 984	39 202 053
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 gross loans and advances balance.*

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

R'000	2018	2017
Up-to-date – never rescheduled	**39 440 767**	36 621 225
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
	41 661 660	39 082 053

Analysis of provision for doubtful debts	Unidentified provision	Identified provision	Total
At 1 March 2017	3 742 990	1 388 615	5 131 605
Provision for doubtful debts	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**

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

This note must be read in conjunction with note 27.1, Credit risk and CFO's audited sections.

8. Other receivables

Deposits	33 363	31 388
SARB settlement balance	211 710	587 540
Other receivables	327 397	114 312
Prepayments[1]	142 035	136 958
Total other receivables	**714 505**	**870 198**
Current	711 062	868 060
Non-current	3 443	2 138
Maximum exposure to credit risk	**714 505**	**870 198**

[1] *Prepayments refer to monthly rental paid in advance and client cards.*

9. Net insurance receivable[1]

Opening balance	255 360	–
Initial investment	–	3 000
Net insurance income	873 524	261 883
Interest on investment (note 22)	22 214	–
Distribution paid	(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 bank.*

[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 bank are shown as part of bad debts recovered in note 23.*

10. Derivative assets

Derivatives[1]	129	58 113
Current	129	54 900
Non-current	–	3 213

[1] *Refer to notes 38 and 39 for more information on derivatives.*

R'000	**2018**	**2017**

11. Available-for-sale financial assets

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. Group loans receivable

Loan to share incentive trust	**8 510**	17
Loan to fellow subsidiary[1]	**159 145**	112 469
Loans owing from holding company	**14 755**	–
Total group loans receivable	**182 410**	112 486
Current	**182 410**	112 486
Non-current	**–**	–

[1] *All loans to group companies are repayable on demand, bear interest as agreed by the parties from time to time and no fixed repayment terms have been set.*

13. Equipment

R'000	Computer equipment	Office equipment and vehicles	Total
2018			
Opening net book value	**772 193**	**641 580**	**1 413 773**
Additions	**316 931**	**311 725**	**628 656**
Disposals	**(3 524)**	**(10 731)**	**(14 255)**
Depreciation charge	**(222 859)**	**(196 731)**	**(419 590)**
Net book value at the end of the year	**862 741**	**745 843**	**1 608 584**
Cost	**1 848 411**	**1 355 040**	**3 203 451**
Accumulated depreciation	**(985 670)**	**(609 197)**	**(1 594 867)**
Net book value at the end of the year	**862 741**	**745 843**	**1 608 584**
Non-current	**862 741**	**745 843**	**1 608 584**
2017			
Opening net book value	531 961	480 241	1 012 202
Additions	439 130	332 178	771 308
Disposals	(11 102)	(919)	(12 021)
Depreciation charge	(187 796)	(169 920)	(357 716)
Net book value at the end of the year	772 193	641 580	1 413 773
Cost	1 629 492	1 529 146	3 158 638
Accumulated depreciation	(857 299)	(887 566)	(1 744 865)
Net book value at the end of the year	772 193	641 580	1 413 773
Non-current	772 193	641 580	1 413 773

R'000	2018	2017

14. Intangible assets

Computer software[1]

	2018	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 is purchased from our respective vendors.*

15. Deferred income tax asset

R'000	Provisions and accruals	Cash flow hedge	Capital allowances	Prepayments	Total
2018					
Balance at the beginning of the year	510 232	4 464	(39 494)	(16 932)	458 270
Income statement charge	(38 622)	–	(5 596)	(2 950)	(47 168)
Debited to equity through other comprehensive income	–	5 834	–	–	5 834
Balance at the end of the year[1]	471 610	10 298	(45 090)	(19 882)	416 936
2017					
Balance at the beginning of the year	424 312	(23 595)	(37 500)	(13 603)	349 614
Income statement charge	85 920	–	(1 994)	(3 329)	80 597
Debited to equity through other comprehensive income	–	28 059	–	–	28 059
Balance at the end of the year[1]	510 232	4 464	(39 494)	(16 932)	458 270

[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	2018	2017

16. Retail deposits and wholesale funding

R'000	2018	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

16. Retail deposits and wholesale funding (continued)

Description	Nominal amount	Issue Date	Term	Rate
Subordinated debt analysis				
Subordinated debt – unlisted bonds – floating rate	R44 million	11/10/31	7 years	3-month JIBAR plus 4.50%
Subordinated debt – unlisted bonds – floating rate	R500 million	12/07/06	7 years	3-month JIBAR plus 4.75%
Subordinated debt – listed bonds – fixed rate	R250 million	11/09/06	7 years	R204 government bond plus 3.91%
Subordinated debt – listed bonds – floating rate	R150 million	12/02/01	7 years	3-month JIBAR plus 4.50%
Subordinated debt – listed bonds – fixed rate	R175 million	12/02/01	7 years	R204 government bond plus 4.16%
Subordinated debt – listed bonds – floating rate	R400 million	12/08/23	7 years	3-month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate	R350 million	12/08/23	7 years	3-month JIBAR plus 4.60%
Subordinated debt – listed bonds – floating rate	R572 million	12/12/14	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 21 and 39. 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 21 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	2018	2017

17. Other liabilities

R'000	2018	2017
Trade payables	**937 974**	560 729
Dividends payable	**5 293**	7 259
Accruals	**766 739**	711 154
Share option and share appreciation rights accrual (notes 36 and 37)	**468 877**	492 847
Total other liabilities	**2 178 883**	1 771 989
Current	**1 699 838**	1 244 369
Non-current	**479 049**	527 620

18. Provisions

R'000	2018	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 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. Group loans payable

R'000	2018	2017
Loan owing to holding company[1]	**–**	11 130
	–	11 130
Current	**–**	11 130

[1] *The loan is interest free and have no fixed repayment terms.*

R'000	2018	2017

20. Share capital and premium

	2018	2017
Authorised		
Ordinary shares		
5 000 000 000 shares of R0.01 each	**50 000**	50 000
Non-redeemable, non-cumulative, non-participating preference shares[2]		
100 000 000 shares of R0.01 each	**1 000**	1 000
Compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares[3]		
100 000 000 shares of R0.01 each	**–**	–
Loss absorbent preference shares (conversion)[3]		
100 000 000 shares of R0.01 each	**1 000**	1 000
Loss absorbent preference shares (write-off)[3]		
100 000 000 shares of R0.01 each	**1 000**	1 000
	53 000	53 000
Issued[1]		
1 300 000 (2017: 1 300 000) shares of R0.01 each at par	**13**	13
Share premium	**6 105 968**	6 105 968
Ordinary share capital and premium	**6 105 981**	6 105 981
1 249 707 (2017: 1 672 844) shares of R0.01 each at par	**12**	17
Share premium	**112 791**	150 981
Non-redeemable, non-cumulative, non-participating preference share capital and premium[2]	**112 803**	150 998
Total issued share capital and premium	**6 218 784**	6 256 979

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

(2) *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.*

(3) *Effective 9 July 2015 the authorised share capital of Capitec Bank was increased from R52 million to R53 million by the creation of 100 000 000 loss-absorbent preference shares (write-off) with a par value of R0.01 each. In addition, the authorised, but unissued compulsorily convertible or written-off, non-redeemable, non-cumulative, non-participating preference shares was substituted for 100 000 000 loss absorbent preference shares (conversion) with a par value of R0.01 each.*

(4) *Reconciliation of movements in cash flows arising from financing activities.*

	Preference shares
Opening balance at 1 March 2017	150 998
Capital	158 257
Dividend paid with regards to 2017	(7 259)
Premium on repurchase	–
Preference shares repurchased	(38 195)
Balance at 28 February 2018	112 803
Capital	107 510
Dividend expense accrued for 2018	12 023
Dividend paid with regards to 2018	(6 730)

R'000	2018	2017

21. Cash flow hedge reserve

	2018	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 and included in 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)

[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 39 for additional disclosure.

22. Net lending, investment and insurance income

	2018	2017
Interest income		
Loans and advances	**12 438 989**	12 389 019
Loan origination fees	**775 807**	836 080
Non-bank money market placements	**568**	17
Money market funds and term deposit investments	**1 522 756**	1 288 157
Treasury bills	**21 972**	30 986
Bank balances	**6 058**	9 978
Resale agreements	**79 658**	18 331
Debentures	**1 517**	4 116
Interest-bearing instruments	**625 851**	357 234
Total interest income	**15 473 176**	14 933 918
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	**17 266 028**	16 070 739
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	**12 668 712**	11 876 473

[1] Refer to note 9.

R'000	2018	2017

23. Net provision for doubtful debt charge

R'000	2018	2017
Bad debts written off	6 662 691	5 447 481
Movement in provision for doubtful debts[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:

R'000	2018	2017
Loss/(profit) on disposal on plant and equipment	(585)	2 946
Loss on scrapping of intangibles	–	1 223
Depreciation on property, plant and equipment	419 590	357 716
Amortisation of computer software	139 878	178 531
	558 883	540 416
Advertising and marketing	198 882	185 979
Bank charges	257 054	230 634
Consumables	239 581	191 647
Communications	204 573	177 751
Operating lease rentals		
Land and buildings	462 877	405 994
Office equipment	929	4 574
	463 806	410 568
Income from subletting	(2 224)	(3 409)
Auditors' remuneration		
Audit fees – current year	5 873	3 935
Other services	2 589	1 014
	8 462	4 949
Employee costs		
Salaries and bonus costs	2 995 857	2 537 036
Cash-settled share-based payment	138 657	196 458
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)
	3 395 799	2 989 160

R'000	2018	2017

25. Income tax expense

	2018	2017
Current tax	1 608 821	1 471 032
Deferred tax	47 168	(80 597)
Income tax expense	**1 655 989**	1 390 435
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:

	2018	2017
Operating profit before tax	**6 049 501**	5 087 344
Tax calculated at a tax rate of 28%	1 693 860	1 424 456
Prior periods over provision	–	(881)
Income not subject to tax[1]	(355)	(1 966)
Expenses not deductible for tax purposes[2]	–	112
Allowances not in income statement[3]	(37 516)	(31 286)
Income tax expense	**1 655 989**	1 390 435

[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.*

26. Dividends

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

R'000	Rand	Declared	LDT	Date paid
2018				
Ordinary dividend				
Interim	607 042	27 Sep 2017	17 Oct 2017	23 Oct 2017
Final[1]	1 092 675	26 Mar 2018	17 Apr 2018	23 Apr 2018
Preference dividend				
Interim	6 730	31 Aug 2017	19 Sep 2017	26 Sep 2017
Final	5 293	28 Feb 2018	19 Mar 2018	26 Mar 2018
2017				
Ordinary dividend				
Interim	520 321	26 Sept 2016	11 Oct 2016	17 Oct 2016
Final	925 016	27 Mar 2017	18 Apr 2017	24 Apr 2017
Preference dividend				
Interim	8 464	31 Aug 2016	20 Sept 2016	26 Sept 2016
Final	7 258	28 Feb 2017	14 Mar 2017	20 Mar 2017

[1] *The directors declared a final dividend of R1 093 million (2017: R925 million) in respect of 2018 on 26 March 2018. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2018, which is in line with recommended accounting practice.*

27. 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 27 should be read with the sections in chapter 1 of the integrated annual report and the sections marked as audited.

To assist the board, the company is managed through a system of internal controls functioning throughout the entity. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the company. The board established a risk and capital management committee (RCMC) comprising 2 independent non-executive directors which operates in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the company environment.

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

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

The RCMC ensures that this assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly.

The bank operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed with weightings on impact and probability assigned. Existing controls are assessed, and if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

27.1 Credit risk

Refer to pages 32 to 36 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 bank, is to maintain the retail lending book within the bank's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

Acquisition and retention strategies are built on the principles of 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 bank 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 bank'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 bank to limit credit risk to acceptable levels include, inter alia, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the RCMC.

27. Financial risk management (continued)

27.1 Credit risk (continued)

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 bank 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 bank. 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 bank 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 bank 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	15 658 357	–	58	15 683 690
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	–	11 625 523	–	–	11 625 523
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		327 397	539 107
Net insurance receivable	9	–	245 204	–	–	245 204
Derivative assets	38, 39	129	–	–	–	129
		1 328 481	38 094 195	–	751 877	40 174 554
2017						
Cash on hand	4	–	3 091 691	–	–	3 091 691
Bank balances[1]	4	–	12 166 755	–	14	12 166 769
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		114 312	701 852
Net insurance receivable	9		255 360			255 360
Derivative assets	38, 39	56 168	1 945	–	–	58 113
		2 078 099	28 657 875	–	878 118	31 614 092

(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 bank 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: R756.9 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 includes 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.

27. Financial risk management (continued)

27.2 Interest rate risk

The current bank 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 bank, 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 bank 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 bank's most significant financial asset, loans and advances, which are carried at amortised cost, are exposed to fixed rates.

The bank actively manages interest rate risk by minimising its exposed of the fixed rate financial assets by in part cash flow hedging elements of its variable rate funding book to a fixed rate. Interest rate swaps have the economic effect of converting floating rate debt to fixed rate debt. The net unmatched position, resulting from the bank's exposure to variable rate funding from its retail deposits, exposures the bank to cash flow interest rate risk.

Compliance with the prescribed maximum interest rates

The National Credit Act (NCA) prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The bank operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

Sensitivity analysis

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

The sensitivity analysis below is a run-off analysis and reflects the impact of a 200 basis point increase or decrease in the South African interest rate environment:

- Immediately following the reporting date
- Based on floating rate assets and liabilities held at amortised cost (cash and cash equivalents, negotiable instruments, floating bond liabilities), 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 equity reflects the change in the valuation of interest rate cash flow hedges subsequent to the 12-month period

200 basis points	Impact on income statement 2018		2017		Impact on equity 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)

27.3 Currency risk

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

Wholesale 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 39).

27.4 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.

27.5 Liquidity risk

The bank 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 bank'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 33.
- Retail loan commitments totalling R796.3 million (2017: R457.6 million) are not included in the liquidity analysis above. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of 1 month or less.
- 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. 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 47 and 48 of the integrated annual report for more on management's objectives, policies and processes for managing the risk.

27. Financial risk management (continued)

27.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[1] – R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Adjustment/ open ended[2]	Total
2018							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 137 659	–	–	–	–	1 137 659
Cash and cash equivalents – banks	4	17 758 859	6 237 218	–	–	–	23 996 077
Money markets unit trusts – corporate other	4	20 750	–	–	–	–	20 750
Held-to-maturity investments – sovereigns and banks[4]	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	19 590 006	51 520 902	(677 485)	78 439 877
Loans and advances – corporate other	7	27 018	–	–	–	–	27 018
Other receivables	8	432 321	107 351	29 355	3 443	–	572 470
Net insurance receivable	9	–	–	245 204	–	–	245 204
Derivative assets	10	–	58	75	–	–	133
Group loans receivable	12	182 409	–	–	–	–	182 409
Current income tax asset		–	–	107 154	–	–	107 154
Undiscounted assets		22 986 563	15 060 078	30 617 663	51 524 345	(577 485)	119 611 164
Adjustments for undiscounted assets		(1 012 529)	(2 140 774)	(8 298 949)	(19 930 977)	–	(31 383 229)
Discounted assets							
Provision for doubtful debts	7	(558 587)	(282 284)	(1 129 994)	(3 857 230)	–	(5 828 095)
Total discounted assets		21 415 447	12 637 020	21 188 720	27 736 138	(577 485)	82 399 840
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	1 067 761	578 784	53 293	244 277	234 772	2 178 887
Derivative liability		13 117	4 651	15 507	21 168	–	54 443
Provisions	18	–	–	–	66 835	–	66 835
Undiscounted liabilities		37 252 525	3 788 309	11 582 337	17 927 634	234 772	70 785 577
Adjustments for undiscounted liabilities to depositors		(28 004)	(212 127)	(1 161 145)	(3 056 990)	–	(4 458 266)
Total discounted liabilities		37 224 521	3 576 182	10 421 192	14 870 644	234 772	66 327 311
Net liquidity excess/(shortfall)		(15 809 074)	9 060 838	10 767 528	12 865 494	(812 257)	16 072 529
Cumulative liquidity excess/(shortfall)[4]		(15 809 074)	(6 748 236)	4 019 292	16 884 786	16 072 529	16 072 529

Maturities of financial assets and financial liabilities[1] – R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Adjust-ment/ open ended[2]	Total
2017							
Undiscounted assets							
Cash and cash equivalents – sovereigns	4	1 957 106	698 000	–	–	–	2 655 106
Cash and cash equivalents – banks	4	11 539 139	4 520 353	–	–	–	16 059 492
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	18 854 394	49 105 534	(718 744)	75 059 765
Loans and advances – corporate other	7	10 164	–	–	–	–	10 164
Other receivables	8	697 477	4 753	28 871	2 139	–	733 240
Net insurance receivable	9	–	–	255 360	–	–	255 360
Derivative assets	10	227	(3 912)	63 487	3 774	–	63 576
Group loans receivable	12	112 486	–	–	–	–	112 486
Undiscounted assets		17 737 866	14 797 047	26 367 530	49 111 447	(618 744)	107 405 146
Adjustments for undiscounted assets		(1 084 395)	(2 222 778)	(8 492 957)	(18 614 620)	–	(30 414 750)
Discounted assets							
Provision for doubtful debts	7	(596 245)	(289 262)	(1 066 511)	(3 978 359)	–	(5 930 377)
Total discounted assets		16 057 226	12 285 007	16 808 062	26 518 468	618 744	71 060 019
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	659 391	540 621	44 357	313 820	213 800	1 771 989
Derivative liability		9 314	3 282	10 467	25 399	–	48 462
Group loans payable	19	11 130	–	–	–	–	11 130
Provisions	18	–	–	–	81 024	–	81 024
Undiscounted liabilities		31 860 826	3 548 081	9 371 872	17 014 492	213 800	62 009 701
Adjustments for undiscounted liabilities to depositors		(28 393)	(211 526)	(1 099 174)	(3 147 625)	–	(4 486 718)
Total discounted liabilities		31 832 422	3 336 555	8 272 698	13 866 867	213 800	57 522 353
Net liquidity (shortfall)/excess		(15 675 207)	(8 948 452)	8 545 364	12 651 601	(932 544)	13 537 666
Cumulative liquidity (shortfall)/excess[4]		(15 675 207)	(6 726 754)	1 818 609	14 470 210	13 537 666	13 537 666

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

[2] 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.

[3] 99% of held-to-maturity investments – sovereigns and banks relates to investments in sovereigns.

[4] 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.

27. Financial risk management (continued)

27.5 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	51 520 902	20 914 395	14 703 010	8 970 498	4 937 130	1 995 869	–
Other receivables	8	3 443	3 189	–	–	–	254	–
Undiscounted assets		51 524 345	20 917 584	14 703 010	8 970 498	4 937 130	1 996 123	–
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		27 736 138	11 749 198	8 681 495	5 065 059	1 875 045	365 341	–
Undiscounted liabilities								
Retail 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	244 277	155 033	56 934	14 586	12 722	5 002	–
Derivative liability	17	21 168	16 195	4 973	–	–	–	–
Provisions	18	66 835	43 781	23 054	–	–	–	–
Undiscounted liabilities		17 927 634	6 946 507	4 593 193	3 546 515	2 753 809	69 610	–
Adjustments for undiscounted liabilities to depositors		(3 056 990)	(1 073 429)	(736 590)	(663 268)	(573 737)	(9 966)	–
Total discounted liabilities		14 870 644	5 873 078	3 856 603	2 883 247	2 180 072	59 644	–
Net liquidity excess/(shortfall)		12 865 494	5 876 120	4 824 892	2 163 812	(305 027)	305 027	–
Cumulative liquidity excess/(shortfall)		16 884 784	9 895 412	14 720 304	16 884 116	16 579 089	16 884 786	16 884 786

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	49 105 534	20 004 096	14 269 631	8 577 910	4 309 429	1 944 468	–
Other receivables	8	2 139	1 919	–	–	–	220	–
Derivative assets	10	3 774	730	3 044	–	–	–	–
Undiscounted assets		49 111 447	20 006 745	14 272 675	8 577 910	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)	(1 510 614)	(1 107 644)	(696 632)	(387 652)	(275 818)	–
Total discounted assets		26 518 468	10 870 765	8 425 548	4 895 355	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	5 70 448	292 725	–
Trade and other payables	17	313 820	176 713	87 481	27 055	4 408	18 162	
Derivative liability		25 399	18 521	4 462	2 416	–	–	–
Provisions	18	81 024	58 998	22 027	–	–	–	–
Undiscounted liabilities		17 014 492	5 844 195	4 572 372	3 270 610	3 016 428	310 887	–
Adjustments for undiscounted liabilities to depositors		(3 147 625)	(1 106 471)	(759 648)	(589 095)	(657 813)	(34 598)	–
Total discounted liabilities		13 866 867	4 737 724	3 812 724	2 681 515	2 358 615	276 289	–
Net liquidity excess/(shortfall)		12 651 601	6 133 041	4 612 824	2 213 840	(468 687)	160 583	–
Cumulative liquidity excess/ (shortfall)		14 470 210	7 951 650	12 564 474	14 778 314	14 309 627	14 470 210	14 470 210

27. Financial risk management (continued)

27.6 Capital management

The bank'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 bank holds sufficient risk capital. Risk capital caters for unexpected losses that may arise, protects shareholders and depositors and thereby assures the sustainability of the bank through the business cycle; and
- comply with the capital supervisory requirements of the SARB as codified in the Banks Act 1990 (as amended) and related regulations.

The bank conducts a Capitec Internal Capital Adequacy Assessment Process (CICAAP) on an ongoing basis, which drives the position on capital management. The CICAAP reviews the historic, current and future capital positioning of the bank, both from an internal and regulatory capital perspective.

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

R'000	2018	2017
Composition of qualifying regulatory capital		
Ordinary share capital	6 105 981	6 105 981
Accumulated profit	12 331 048	9 581 370
	18 437 029	15 687 351
Regulatory adjustments		
– Intangible assets in terms of IFRS	(283 011)	(279 946)
– Specified advances	(8 511)	(18)
– Unappropriated profit	(1 128 678)	(808 996)
Common Equity Tier 1 capital (CET1)	17 016 829	14 598 391
Issued preference share capital[(1)]	112 803	150 998
Phase out – non-loss-absorbent[(2)]	(9 216)	(21 513)
Additional Tier 1 capital (AT1)	103 587	129 485
Tier 1 capital (T1)	17 120 416	14 727 876
Issued subordinated debt	2 441 000	2 641 000
Phase out – non-loss-absorbent[(2)]	(2 076 600)	(1 588 400)
Total subordinated debt	364 400	1 052 600
Unidentified impairments	519 230	491 168
Tier 2 capital (T2)	883 630	1 543 768
Qualifying regulatory capital	18 004 046	16 271 644
CET1 (%)	33.3	30.2
AT1 (%)	0.2	0.3
T1 (%)	33.5	30.5
T2 (%)	1.7	3.2
Total capital adequacy (%)[(3)]	35.2	33.7

R'000	2018	2017
Composition of required regulatory capital		
On statement of financial position	**4 621 702**	4 225 547
Off statement of financial position	**–**	–
Credit risk	**4 621 702**	4 225 547
Operational risk	**683 002**	622 784
Equity risk in banking book	**41 872**	41 165
Other assets	**345 109**	300 371
Total regulatory capital requirement[(4)]	**5 691 685**	5 189 867
Composition of risk-weighted assets[(5)]		
On statement of financial position	**41 543 388**	39 307 414
Off statement of financial position	**–**	–
Credit risk	**41 543 388**	39 307 414
Operational risk	**6 139 346**	5 793 340
Equity risk in the banking book	**376 379**	382 933
Other assets	**3 102 106**	2 794 146
Total risk-weighted assets	**51 161 219**	48 277 833
Total assets based on IFRS	**84 850 405**	73 348 966
Total risk-weighted assets – adjustments[(6)]	**(33 689 186)**	(25 071 133)
Total risk-weighted assets – regulatory	**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, 56.45% (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)] *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*

[(4)] *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.*

[(5)] *Risk-weighted assets are calculated by using regulatory percentages applied to the statement of financial position, in order to establish the base for calculating the required regulatory capital.*

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

27. Financial risk management (continued)

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

R'000	Note	At fair value through profit and loss		At amortised cost		Total
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	
2018						
Interest income	22	**–**	**–**	**15 473 176**	**–**	**15 473 176**
Interest expense	22	**–**	**–**	**–**	**(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)**
Net provision for doubtful debts charge	23	**–**	**–**	**(5 279 990)**	**–**	**(5 279 990)**
2017						
Interest income	22	–	–	14 933 918	–	14 933 918
Interest expense	22	–	–	–	(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)
Net provision for doubtful debts charge	23	–	–	(5 121 177)	–	(5 121 177)

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

Hierarchy of fair value of financial instruments

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

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

27. Financial risk management (continued)

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

R'000	Notes	At fair value through other comprehensive income		At amortised cost				
		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	–	–	25 080 848	–	25 080 848	25 080 848	(3)
Held-to-maturity investments	5	–	–	11 780 934	–	11 780 934	11 780 934	
Available for sale investment	11	100 000				100 000	100 000	Level 3
Term deposit investments[2]	6	–	–	2 528 331	–	2 528 331	2 528 331	(3)
Loans and advances	7	–	–	41 802 360	–	41 802 360	44 147 508	Level 3
Other receivables	8	–	–	572 470	–	572 470	572 470	(3)
Net insurance receivable		–	–	245 204	–	245 204	245 204	
Derivative assets[1]	10	–	129	–	–	129	129	Level 2
Group loans receivable	12	–	–	182 410	–	182 410	182 410	(3)
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]		–	51 365	–	–	51 365	51 365	Level 2
Trade and other payables	17	–		–	2 178 883	2 178 883	2 178 883	(3)
Group loans payable	19	–	–	–	–	–	–	(3)
2017								
Financial assets								
Cash, cash equivalents and money market funds	4	–	–	18 671 294	–	18 671 294	18 671 294	(3)
Held-to-maturity investments	5			5 326 724		5 326 724	5 326 724	
Available for sale investment	11	100 000	–	–	–	100 000	100 000	Level 3
Term deposit investments[2]	6	–	–	6 600 749	–	6 600 749	6 600 749	(3)
Loans and advances	7	–	–	39 202 053	–	39 202 053	43 232 558	Level 3
Other receivables	8	–	–	733 240	–	733 240	733 240	(3)
Net insurance receivable		–	–	255 360	–	255 360	255 360	
Derivative assets[1]	10	–	58 113	–	–	58 113	58 113	Level 2
Group loans receivable	12	–	–	112 486	–	112 486	112 486	(3)
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
Trade and other payables	17	–	–	–	1 726 391	1 726 391	1 726 391	(3)
Group loans payable	19	–	–	–	11 130	11 130	11 130	(3)

(1) *Cash flow hedges.*
(2) *Term deposit investments are short term.*
(3) *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

27.9 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 significant judgement by management in determining what a market-based valuation would be. An income approach was used, which calculated an expected present value in terms of a 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.

27. Financial risk management (continued)

27.9 Fair value calculation methods, inputs and techniques (continued)

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 Bank 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. The impact of the ratings change on Capitec Bank is included in the market rates for Capitec Bank's listed debt instruments.

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. The impact of the ratings change on Capitec Bank is included in the risk premium adjustment and references spreads from recent debt issues done prior to the financial year-end.

Retail fixed-term deposits

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

R'000	2018	2017
28. Retirement benefits		
The bank contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined-contribution fund, is administered independently of the bank and is subject to the Pension Funds Act, 1956 (Act 24 of 1956). The amount contributed is included in salaries and bonus cost as per note 24.	**194 272**	159 118

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

R'000	2018	2017

29. Related-party transactions

Holding company		
Dividends		
Ordinary dividend paid	**1 631 807**	1 306 584
Preference dividend paid	**12 023**	15 719
Capitec Bank Holdings Limited (holding company)	**1 643 830**	1 322 303
Management fees paid	**3 704**	3 121
Loans due to:		
Capitec Bank Holdings Limited (holding company)	**–**	11 135
Parties with significant influence		
Brokers' fees – PSG Group and subsidiaries[1]	**230**	110
Loans due from:		
Capitec Bank Holdings Share Trust	**(8 510)**	(17)
Capitec Properties Proprietary Limited (fellow subsidiary)	**(159 145)**	(112 469)
Capitec Bank Holdings Limited (holding company)	**(14 755)**	–
Donations		
Community Keepers[4]	**2 000**	–
Key management		
Key management employees' remuneration		
Salaries and other short-term benefits	**76 041**	66 425
Post-employment benefits	**2 972**	2 378
Share-based payments	**218 750**	305 513
Key management compensation[2]	**297 763**	374 316
Retail deposits from directors and other key management employees[3]		
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

[1] *Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth.*
[2] *Key management is considered to be the members of the executive management committee (excluding development members) and executive directors.*
[3] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*
[4] *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 contracts

All directors of Capitec Bank Limited have given notice that they did not have a material interest in any significant contract with the company or any group company, which could have given rise to a conflict of interest during the year.

Directors' interest in share capital

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

29. Related-party transactions (continued)

Directors' remuneration

The total share option expense relating to directors amounted to R58 418 362 (2017: R74 669 746) 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 P 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 P 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.*

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	Market price R	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
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)	933.00	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

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – options (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
2018								
NS Mashiya								
(direct beneficial)	01 Nov 17	02 Nov 15	539.88	8 875	(8 875)	990.00	23 Nov 17	–
	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
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

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
	29 Mar 23	01 Apr 17	705.93	–	3 928	–	–	3 928
				78 958	(5 331)			73 627
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

29. Related-party transactions (continued)

Directors' interest in share incentive scheme – share appreciation rights (continued)

Directors	Maturity date	Issue date	SAR exercise price R	Opening balance Number of SARs	(SAR exercised)/ SAR granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
2018								
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

The total share option expense relating to prescribed officers above amounted to R73 804 956 (2017: R101 699 943) and share appreciation rights expense amounted to R42 560 667 (2017: R71 381 585). This expense includes the movement on all tranches.

Financial assistance amounting to Rnil (2017: Rnil) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to R11 647 703 (2017: R2 662 040).

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

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year on reporting date
2018					
JC Carstens	4 042	46	1 537	5 625	689
W De Bruyn	5 867	66	2 237	8 170	1 142
HAJ Lourens	5 175	179	1 993	7 347	1 017
NST Motjuwadi	2 945	46	1 121	4 112	428
A Olivier	5 212	57	1 986	7 255	1 013
L Venter	4 596	50	1 749	6 395	892
F Viviers	2 500	235	979	3 714	374
	30 337	679	11 602	42 618	5 555
2017					
JC Carstens	3 792	45	1 444	5 281	1 134
W De Bruyn	5 417	80	2 062	7 559	1 853
CG Fischer[1]	1 050	11	–	1 061	–
HAJ Lourens	4 500	50	1 725	6 275	1 549
NST Motjuwadi	2 760	88	1 043	3 891	698
A Olivier	4 838	55	1 839	6 732	1 652
L Venter	4 300	45	1 635	5 980	1 469
F Viviers	1 890	79	750	2 719	893
	28 547	453	10 498	39 498	9 248

[1] *Retired on 31 May 2016.*

R'000	2018	2017

30. Cash flow from operations

	2018	2017
Net profit before tax and equity accounted earnings	**6 049 501**	5 087 344
Deduct interest income	**(15 473 176)**	(14 933 918)
Add back interest expenses	**4 184 449**	3 551 821
Add back interest received	**15 334 272**	14 497 408
Deduct interest paid	**(4 194 240)**	(3 538 092)
Adjusted for non-cash items		
Movement in provision for doubtful debt charge	**(102 282)**	798 772
Bad debts written off	**6 662 691**	5 447 481
Depreciation	**419 590**	357 716
Amortisation	**139 878**	178 531
Loss on disposal of assets	**(585)**	4 169
Movements in assets and liabilities		
Loans and advances[1]	**(8 592 659)**	(9 491 910)
Other receivables	**155 693**	(914 920)
Net insurance receivables	**(552 615)**	(214 461)
Derivatives	**42 916**	108 946
Retail deposits and other wholesale funding[2]	**9 067 744**	9 062 240
Trade and other payables	**432 834**	145 991
Movements in provisions	**(14 189)**	(26 881)
Share-based employee costs – options	**(7 212)**	178 488
Share-based employee costs – SARs	**(16 758)**	120 755
Cash flow from operations	**13 535 852**	10 869 480

	2018	2017
[1] *Movement in loans and advances to clients*	**(8 592 659)**	(9 491 910)
Gross loans advances opening balance	**45 132 430**	40 887 049
Gross loans and advances closing balance	**(47 630 455)**	(45 132 430)
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

	2018	2017
[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)

31. Income taxes paid

	2018	2017
Balance at the beginning of the year	**30 341**	(52 702)
Income statement charge	**1 655 989**	1 390 435
Movement in deferred tax	**(47 168)**	80 597
Balance at the end of the year	**107 154**	(30 341)
Income tax paid	**1 746 316**	1 387 989

32. Dividends paid

	2018	2017
Balance at the beginning of the year	**7 259**	7 787
Dividend declared during the year:		
Ordinary dividend	**1 631 807**	1 306 585
Preference dividend	**12 023**	15 719
Balance at the end of the year	**(5 293)**	(7 259)
Dividends paid	**1 645 796**	1 322 832

R'000	2018	2017

33. Commitments and contingent liabilities

Property operating lease commitments[1]

	2018	2017
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
Sublease payments:		
Future minimum lease payments expected to be received in relation to non-cancellable subleases of operating leases	4 395	5 561

[1] *The bank 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 sub-let to third parties also under non-cancellable operating leases.*

	2018	2017
Other operating lease commitments		
Within 1 year	–	355
	–	355
Capital commitments – approved by the board		
Contracted for		
Property and equipment	97 720	196 414
Intangible assets	15 777	35 609
Not contracted for		
Property and equipment	896 644	923 647
Intangible assets	242 522	392 979
	1 252 663	1 548 649

34. Borrowing powers

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

These borrowing powers are subject to the limitations of the Banks Act, 1990 (Act 94 of 1990) and section 45(3)(a)(ii) of the Companies Act, 2008. A special resolution was passed at the annual general meeting on 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.

35. Share incentive scheme

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

The bank allows its employees to purchase shares in Capitec Bank Holdings Limited 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 bank offers share options in CBHL to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 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 Limited prior to the date of allocation.

	2018		2017
Number	**Weighted average share price R**	**Number**	**Number**
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	**135.69**	**(180 083)**	(52 837)
Balance at the end of the year	**319.95**	**518 652**	602 547

35. Share incentive scheme (continued)

Analysis of outstanding share options by year of maturity	2018 Weighted average strike price R	2018 Number	2017 Weighted average strike price R	2017 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)

Analysis of outstanding SARs by year of maturity	2018 Weighted average strike price R	2018 Number	2017 Weighted average strike price R	2017 Number
Financial year				
2017/2018	209.83	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

36. Share option liability

Data utilised in the valuation of options granted

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

Year granted	Strike price R	Year maturing[2]	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion[3] %	Fair Value R'000	Portion of term expired %	Liability at year-end R'000
2012/2013	182.40	2018/2019	7.1	1 714	1 114	100.0	1 114	100.0	1 114
	198.52	2018/2019	7.1	48 877	30 979	100.0	30 979	98.5	30 524
2013/2014	201.40	2018/2019	7.0	37 500	23 661	100.0	23 661	98.2	23 244
		2019/2020	7.1	37 500	23 653	100.0	23 653	81.8	19 349
	209.83	2018/2019	7.1	8 750	5 446	100.0	5 446	86.5	4 713
		2019/2020	7.0	8 750	5 445	100.0	5 445	72.1	3 927
2014/2015	196.43	2018/2019	7.2	29 885	19 004	100.0	19 004	97.8	18 583
		2019/2020	7.0	29 891	18 990	100.0	18 990	78.1	14 830
	253.82	2018/2019	7.1	28 000	16 254	100.0	16 254	83.1	13 514
		2019/2020	7.3	28 000	16 338	100.0	16 338	66.5	10 865
2015/2016	371.88	2018/2019	7.1	84 075	38 800	100.0	38 800	97.1	37 667
		2019/2020	7.0	84 071	39 842	100.0	39 842	72.8	29 016
		2020/2021	7.2	84 070	40 747	100.0	40 747	58.2	23 730
	539.88	2018/2019	7.0	8 875	2 755	100.0	2 755	77.5	2 136
		2019/2020	7.1	8 875	3 044	100.0	3 044	58.2	1 770
		2020/2021	7.3	8 875	3 295	100.0	3 295	46.5	1 532
2016/2017	473.05	2019/2020	7.1	33 264	12 731	100.0	12 731	63.7	8 116
		2020/2021	7.0	33 260	13 438	100.0	13 438	47.8	6 420
		2021/2022	7.2	33 257	14 116	100.0	14 116	38.2	5 396
		2022/2023	7.3	33 253	14 686	100.0	14 686	31.9	4 679
	576.29	2019/2020	7.0	2 603	792	100.0	792	55.8	442
		2020/2021	7.1	2 603	878	100.0	878	41.8	367
		2021/2022	7.3	2 603	950	100.0	950	33.5	318
		2022/2023	7.3	2 603	1 013	100.0	1 013	27.9	282
2017/2018	705.93	2020/2021	7.2	24 052	5 987	100.0	5 987	30.5	1 824
		2021/2022	7.3	24 050	6 914	100.0	6 914	22.8	1 579
		2022/2023	7.2	24 046	7 664	100.0	7 664	18.3	1 400
		2023/2024	7.3	24 040	8 318	100.0	8 318	15.2	1 266
Grand total				777 342	376 853	100.0	376 853	71.3	268 601

[1] *All options were valued using the Black-Scholes model and the following variables:*

Dividend yield	*1.79%*
Volatility[4]	*32.05%*
Ex dividend share price	*R823.01*

[2] *The remuneration committee approved changes to the performance conditions relating to share options granted in 2017/2018. These performance conditions are that the HEPS growth must exceed the Consumer Price Index (CPI) plus the percentage growth in Gross Domestic Product (GDP) plus 4%, and the attained return on equity (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.*

[3] *Executive staff turnover of 0% per annum. (2017: 0%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

[4] *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.*

37. Share appreciation rights

Data utilised in the valuation of share appreciation rights granted

The table below provides detail regarding the data used in the valuation of the 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[4] %	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[5]	*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% p.a. (2017: 0%) was used to estimated likelihood of vesting conditions realising. This is re-estimate in terms of IFRS 2 on an annual basis.*

[5] *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	 ZAR	Fair values Assets	 Liabilities

38. Derivative financial instruments: economic hedges

2018

R'000	Foreign	ZAR	Assets	Liabilities
Forward foreign exchange contracts – USD	**1 921**	**35 461**	**–**	**12 820**

2017

R'000	Foreign	ZAR	Assets	Liabilities
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.

R'000	Notional USD	 ZAR	Fair values Assets	 Liabilities

39. Derivative financial instruments: cash flow hedges

2018

R'000	USD	ZAR	Assets	Liabilities
Interest rate swaps	**–**	**3 766 000**	**(129)**	**38 545**
Cross-currency interest rate swaps	**–**	**–**	**–**	**–**
Net	**–**	**3 766 000**	**(129)**	**38 545**

2017

R'000	USD	ZAR	Assets	Liabilities
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

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**
Discounted cross-currency interest rate swap cash flows	**–**	**–**	**–**	**–**	**–**
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)

39. Derivative financial instruments: cash flow hedges (continued)

Gains and losses recognised in comprehensive income (note 21) on swap contracts will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

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

At 28 February 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

Shareholders holding more than 5% of the company's issued debt securities

Holder	Instrument held	Amount held R'000	Holding %[1]
Year ended 28 February 2018			
Sanlam Life Insurance Limited	Listed senior bond	371 324	13.6
Standard Chartered Bank as trustee for Stanlib Income Fund – LUINF	Listed senior bond	295 268	10.8
Channel Life Limited	Listed senior bond	200 080	7.3
SBSA ITF PSG Balanced Fund	Listed senior bond	147 840	5.4
Stanlib Income Fund	Subordinated unlisted bond	406 786	73.6
Liberty Group Limited	Subordinated unlisted bond	81 357	14.2
Credit Partners 1 Lp	Subordinated unlisted bond	44 407	8.0
OMIG – OMSFIN OFFSHORE FUND	Subordinated listed bond	335 786	17.4
Investec Corporate Bond Fund	Subordinated listed bond	278 129	14.4
SBSA ITF NGI FLEX Inc Fund	Subordinated listed bond	158 434	8.2
Old Mutual Life Assurance Company (South Africa) Limited	Other unlisted negotiable instruments	109 228	12.3
Sanlam Investment Management Proprietary Limited	Other unlisted negotiable instruments	108 778	12.3
Sanlam Life Insurance Limited	Other unlisted negotiable instruments	100 072	11.3
PSG Money Market Fund	Other unlisted negotiable instruments	92 738	10.5
PSG Balanced Fund	Other unlisted negotiable instruments	54 937	6.2
Channel Life Limited	Wholesale	71 798	71.7
Guardrisk	Wholesale	28 366	28.3

[1] *Percentage holding is of the respective class of instruments.*

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 Personal Service
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
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
HEPS	Headline Earnings per Share
IA	Internal Audit
IAR	Integrated annual report
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Standards Interpretations Committee
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
IRM	Integrated risk management
ISMS	Information security management system
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King IV™	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
PwC	PricewaterhouseCoopers Inc.
RCMC	Risk and capital management committee
REMCO	Human resources and remuneration committee
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
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

Shareholders' calendar

Financial year-end

28 February 2018

Integrated annual report

April 2018

Interim report

September 2017

JSE interest rate market code:

CBL

Administration and addresses

Capitec Bank Limited

Registration number

1980/003695/06

Auditors

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)

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