Capitec Bank Holdings Limited
Registration number: 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI
ISIN code: ZAE000035861
JSE preference share code: CPIP
ISIN code: ZAE000083838
('Capitec' or 'the Company' or 'the Group')

CAPITEC BANK HOLDINGS LIMITED

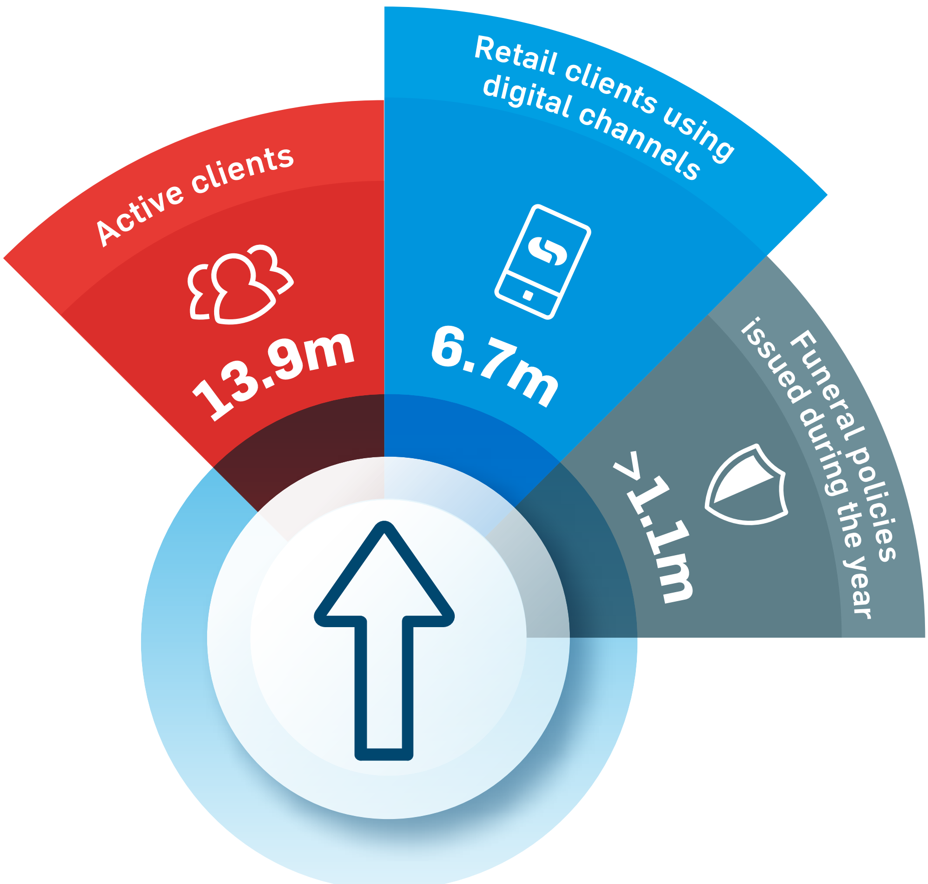
audited summary financial statements

for the year ended 29 February 2020

+19%
to 5 428 cents
Headline earnings per share

+19%
to R6.277 billion
Headline earnings

28%
Return on equity



Key performance indicators

		2020		2019	Change % 2020/2019	
		Group	Retail	Retail*	Group	Retail
Profitability						
Interest income on loans[1]	R'm	13 552	13 196	12 723	7	4
Interest income on investments	R'm	3 489	3 385	2 778	26	22
Total interest income	R'm	17 041	16 581	15 501	10	7
Net loan fee and insurance income	R'm	1 871	1 866	1 507	24	24
Total lending, investment and insurance income less loan fee expense	R'm	18 912	18 447	17 008	11	8
Interest expense[1]	R'm	(5 680)	(5 444)	(4 510)	26	21
Net lending, investment and insurance income	R'm	13 232	13 003	12 498	6	4
Net transaction fee income	R'm	7 416	7 359	6 464	15	14
Other income	R'm	32	19	3		
Foreign currency income	R'm	38	–	–		
Funeral income	R'm	413	413	54		
Income from operations	R'm	21 131	20 794	19 019	11	9
Credit impairment charge[1]	R'm	(4 474)	(4 360)	(4 450)	1	(2)
Net income	R'm	16 657	16 434	14 569	14	13
Income from associates and joint ventures	R'm	11	11	2		
Operating expenses[1]	R'm	(8 612)	(8 392)	(7 494)	15	12
Income before tax	R'm	8 056	8 053	7 077	14	14
Tax	R'm	(1 805)	(1 802)	(1 781)	1	1
Preference dividend	R'm	(7)	(7)	(9)	(22)	(22)
Discount on repurchase of preference shares	R'm	(1)	(1)	(2)	(50)	(50)
Earnings attributable to ordinary shareholders						
Basic	R'm	6 243	6 243	5 285	18	18
Headline	R'm	6 277	6 277	5 292	19	19
Net transaction fee and funeral income to net income[1]	%	47	47	45		
Net transaction fee and funeral income to operating expenses[1]	%	91	93	87		
Cost-to-income ratio[1]	%	41	40	39		
Return on ordinary shareholders equity	%	28	28	28		
Earnings per share						
Attributable	cents	5 400	5 400	4 571	18	18
Headline	cents	5 428	5 428	4 577	19	19
Diluted attributable	cents	5 391	5 391	4 562	18	18
Diluted headline	cents	5 420	5 420	4 568	19	19
Dividends per share						
Interim	cents	755		630	20	
Final	cents	–		1 120		
Total	cents	755		1 750	(57)	
Dividend cover	times	7.2		2.6		
Assets						
Net loans and advances	R'm	62 043	52 013	44 515	39	17
Financial instruments at amortised cost[2]	R'm	59 439	56 491	49 208	21	15
Financial instruments at fair value through profit and loss	R'm	1 504	1 504	–		
Financial assets – equity instruments at fair value through other comprehensive income	R'm	101	100	100	1	0
Right-of-use asset (IFRS 16)	R'm	2 460	2 448	–		
Other	R'm	7 153	9 028	4 723	51	91
Current income tax asset	R'm	5	–	286	(98)	
Deferred income tax asset	R'm	1 863	1 838	1 596	17	15
Total assets[9]	R'm	134 568	123 422	100 428	34	23
Liabilities						
Deposits and wholesale funding	R'm	103 343	90 833	76 443	35	19
Lease liability (IFRS 16)	R'm	2 795	2 782	–		
Other	R'm	2 835	4 208	2 309	23	82
Current income tax liability	R'm	14	14	–		
Total liabilities	R'm	108 987	97 837	78 752	38	24
Equity						
Shareholders' funds	R'm	25 581	25 585	21 676	18	18
Capital adequacy ratio	%	31		34		
Net asset value per ordinary share	cents	22 061		18 676	18	
Share price	cents	129 999		130 621	(0)	
Market capitalisation	R'm	150 314		151 033	(0)	
Number of shares in issue	'000	115 627		115 627	0	
Share options						
Number outstanding	'000	491	482	640	(23)	(25)
Number outstanding to shares in issue	%	0.4	0.4	0.6		
Average strike price	cents	70 889	69 670	50 644	40	38
Average time to maturity	months	21	20	18		

			2020		2019	Change % 2020/2019	
			Group	Retail	Retail*	Group	Retail
Operations							
Branches			**864**	852	840	3	1
Employees			**14 590**	14 029	13 774	6	2
Active clients		'000	**13 887**	13 819	11 386	22	21
ATMs and DNRs							
Own			**2 388**	2 380	2 090	14	14
Partnership			**3 264**	3 264	2 921	12	12
Total			**5 652**	5 644	5 011	13	13
Capital expenditure		R'm	**1 403**	1 396	1 141	23	22
Credit sales							
Value of credit card disbursements/drawdowns		R'm	**9 934**	9 799	6 193	60	58
Value of term loans advanced[3]		R'm	**28 809**	28 666	23 475	23	22
Value of credit facility disbursements/drawdowns		R'm	**651**	651	1 300	(50)	(50)
Value of mortgage loans advanced		R'm	**509**	–	–		
Value of other loans advanced[8]		R'm	**14 855**	–	–		
Value of total loans advanced		R'm	**54 758**	39 116	30 968	77	26
Number of total loans advanced[4][8]		'000	**5 938**	5 921	4 889	21	21
Average credit card disbursement/drawdown		R	**2 220**	2 195	1 974	12	11
Average term loan advanced		R	**27 553**	27 419	26 181	5	5
Average credit facility disbursement/drawdown		R	**1 583**	1 583	1 521	4	4
Average mortgage loan advanced		R	**3 977 984**	–	–		
Average other loan advanced[8]		R	**2 373 719**	–	–		
Average loan advanced[8]		R	**9 222**	6 606	6 334	46	4
Credit book							
Gross loans and advances[5]		R'm	**75 783**	65 438	55 895	36	17
Up-to-date	Stage 1	R'm	**57 626**	48 311	41 587	39	16
Up-to-date with SICR	Stage 2	R'm	**4 570**	4 446	3 765	21	18
Total up-to-date		R'm	**62 196**	52 757	45 352	37	16
Arrears	Stage 2	R'm	**1 200**	1 172	1 087	10	8
Arrears[5]	Stage 3	R'm	**1 550**	1 550	1 483	5	5
Total arrears		R'm	**2 750**	2 722	2 570	7	6
Application for debt review within 6 months	Stage 3	R'm	**83**	83	70	19	19
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)	Stage 2	R'm	**226**	–	–		
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[5][6]	Stage 3	R'm	**1 130**	1 130	900	26	26
Up-to-date that rescheduled from arrears (not yet rehabilitated)	Stage 2	R'm	**71**	–	–		
Up-to-date that rescheduled from arrears (not yet rehabilitated)[5][6]	Stage 3	R'm	**1 471**	1 471	1 354	9	9
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**2 672**	2 601	2 255	18	15
More than 3 months in arrears and legal status	Stage 3	R'm	**7 856**	7 275	5 649	39	29
Total provision for credit impairments[5]		R'm	**13 740**	13 425	11 380	21	18
Net loans and advances		R'm	**62 043**	52 013	44 515	39	17
Total provision for credit impairments to Stage 3 and Stage 2 (excluding SICR) coverage[5]		%	**101**	106	108		
Repayments		R'm	**58 834**	42 836	38 100	54	12
Gross credit impairment charge[1]		R'm	**5 737**	5 623	4 917	17	14
Bad debts recovered		R'm	**1 263**	1 263	467		
Net credit impairment charge[1]		R'm	**4 474**	4 360	4 450	1	(2)
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1]		%	**6.3**	7.2	8.6		
Total lending and insurance income (excluding investment income)[7]		R'm	**15 517**	15 152	14 448	7	5
Net credit impairment charge to total lending and insurance income (excluding investment income)[1][7]		%	**28.8**	28.8	30.8		
Deposits and wholesale funding							
Wholesale funding		R'm	**3 694**	3 336	5 078	(27)	(34)
Call savings		R'm	**62 582**	55 160	45 141	39	22
Fixed savings		R'm	**36 183**	32 337	26 224	38	23
Foreign currency deposits		R'm	**884**	–	–		

* *In 2019 the group comprised only retail banking*

(1) *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and bad debt written off by R1 526 million for this year (February 2019: R1 073 million). Under IFRS 16, interest expense increased by R256 million, depreciation increased by R421 million and premises rental decreased by R460 million*

(2) *Cash, cash equivalents, money market funds, term deposits and other financial investments*

(3) *Net of loans settled through loan consolidation*

(4) *Includes credit card. For the number of loans advanced, a month in which the credit card is utilised is counted as a single loan*

(5) *At 28 February 2019, the gross carrying amount disclosed above did not include impaired interest on Stage 3 advances. The gross carrying amount comprised of the principal debt component and the expected recoverable interest. Gross carrying amount was presented in this manner to align to the income statement presentation under IFRS 9 which requires interest to be recognised on a net basis i.e. after expected credit loss (ECL). In the current year, the gross carrying amount was updated to include all contractual cash flows before ECL. This is consistent with the definition of gross carrying amount in IFRS 9 and is aligned to industry practice under IFRS 9 to apply the definition not only to Stage 1 and 2 advances, but also to Stage 3 advances regardless of the income statement presentation. The gross carrying amount at 28 February 2019 has therefore been grossed up by R1 016 million. There is no impact on net loans and advances*

(6) *Not yet 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*

(7) *Interest received on loans, initiation fees, monthly service fee and net insurance income*

(8) *The value of other loans advanced includes all disbursements from overdraft facilities and the full number of disbursements are included in number of total loans advanced in order to calculate the average other loan advanced and the total average loan advanced*

(9) *Total assets for retail include the investment of R3 556 million in Mercantile, which is consolidated out at a group level*

Simplified banking in difficult times

Socio-economic conditions are severely impacted by the onset of the COVID-19 pandemic and people from all walks of life in South Africa are affected. This has highlighted the importance of standing together to overcome this threat. During March 2020, Capitec responded quickly and implemented several initiatives to support employees and clients. This includes procuring and distributing over 2 000 computers to allow client care and key support service personnel to work from home. 50% of branches are kept open during the lockdown period while employees continued to earn their full salaries.

Capitec committed substantial donations to various organisations for disaster relief during this pandemic, and contributed to client savings through the industry-wide waiver of SASWITCH fees to all clients, as well as waiving the full cash withdrawal fees for SASSA clients. We continually review the financial position of our credit clients on an individual basis and implement the necessary remedies where possible to assist clients with their cash flow during this difficult period. Executive management monitors the national crisis and adapts our response on a daily basis.

Capitec remains committed to its founding fundamentals of simplicity, accessibility, affordability and personalised service. We believe that these fundamentals will support Capitec and its clients through the current turmoil and ensure that we are well positioned for a future South African renaissance. In our endeavour to put the client first we constantly diversify our product offering to meet clients' needs. The acquisition of Mercantile Bank is another step in our journey. We will grow business banking guided by the same fundamentals.

19% growth in earnings

Headline earnings grew to R6.28 billion (2019: R5.29 billion). Return on shareholders' equity remained consistent at 28% for the 2020 financial year. Our client base grew by 22% to 13.9 million active clients (2019: 11.4 million). On average 200 000 clients joined us per month during the year.

Our retail net transaction fees and funeral income cover 93% of retail operating expenses (2019: 87%) and contribute 47% of retail net income (2019: 45%).

Focus on fundamentals

Our brand promise is to make banking simple, more affordable, accessible and personalised. The client is central to our decision-making process. This single-minded focus on addressing client needs is reflected in Capitec's rating by global brand research group, Brand Finance, as the strongest banking brand in South Africa and the 3rd strongest banking brand in the world in its 2020 Global 500 Banking report.

Capitec offers clients access to a range of products via digital banking, internet banking, self-service terminals and the branch network. Our focus on personalised client service and client experience has prompted us to innovate in the field of digital banking. Our systems are designed to process high volumes of transactions.

We encourage clients to use digital channels through relevant engagement on SMS, e-mail, call, in-app and social media. This is enabled through advanced data capabilities and machine learning models and is executed with an integrated client engagement system to ensure that we speak to the right client at the right time on the most relevant channel.

The branch focus is on client interaction and more complex, specific banking needs. We now have 6.7 million retail clients making use of our digital channels (banking app and USSD) up from 5.2 million in 2019. Some clients prefer to visit branches and have face-to-face interactions with service consultants. There are 852 retail branches across the country in convenient locations. Approximately 7.8 million (2019: 6.6 million) retail clients visit our retail branches every month.

We maintain a simple fee structure. Our affordable fees maximise client value. In March 2019, we lowered our digital transaction fees and tiered our withdrawal fee to make withdrawals of less than R1 000 more affordable. The Global One monthly administration fee, along with digital banking and debit order fees were not increased on 1 March 2020, as part of our strategy to pass volume benefits through to our clients. Digital and self-service banking saved our clients R474 million during the year whilst the migration created more capacity in our branch network.

Change behaviour

Transacting

Digital banking has transformed the way people manage their money. Our digital strategy allows clients to perform their banking activities remotely at their own convenience. We continuously look for ways to take the complexity out of banking and have designed a new app with our clients' convenience in mind. The new app allows for more personalisation and customisation. It improves our clients' ability to track their spending and manage their monthly expenses. A brand new innovative platform was implemented that allows us to address the needs of clients and to support collaboration with other Fintech companies. We also introduced a new bank card that enables all our clients to make contact-less payments.

Total retail net transaction fee income increased by 14% from R6.46 billion to R7.36 billion. The net retail fee income from our digital channels increased by 12% from R722 million to R809 million. An increase in the volume of banking app transactions by 69% to 327 million for the 2020 financial year (2019: 193 million) illustrates a change in client behaviour. Despite digital banking earning a lower fee than cash or in-branch banking, it is more profitable and in the client's best interest. App users grew to 3.3 million (2019: 2.2 million) and USSD users to 4.9 million (2019: 4.1 million).

The risk and cost associated with cash utilisation in South Africa is prohibitive. We encourage our clients to use their cards at point of sale terminals instead of cash. We are an industry leader in the pricing of immediate payments and charge our clients only R8 for this service. Our "Send cash" product (via the banking app) enables clients to send money quickly and conveniently to people who may not have a bank account. Recipients can collect the cash at selected retailers.

Saving

Saving is essential and Capitec rewards clients by paying interest from the first cent on positive balances. During the 2020 financial year we paid retail clients R4.7 billion (2019: R3.9 billion) in interest on retail call, fixed deposits and credit card accounts. Our retail clients currently earn between 3.5% and 4.25% interest per annum on any positive balance on their debit or credit cards, while on fixed term savings they can earn up to 9.00% per annum. Despite the poor current economic conditions, retail call savings and fixed deposits increased by 23% to R87.5 billion (2019: R71.4 billion). This highlights Capitec's brand acceptance and our healthy client growth.

Credit

26% growth in retail loan sales and credit card disbursements

Growth in our loan book is underpinned by our focus on our clients' stability of income, behaviour and affordability. We promote purpose-driven lending, prompting clients to only take credit for the right reasons.

Innovative technology such as sophisticated data analytics and artificial intelligence allows us to understand clients better and tailor our credit offering to the clients' needs. Improved insight into our clients' behaviour has allowed us to offer lower interest rate loans to certain client segments while remaining within our profitability matrices. Given the tougher trading conditions we tightened our affordability criteria and raised our minimum living expense thresholds.

We offer reduced interest rates on loans that are lower than the maximum amount or shorter than the maximum term offered by Capitec which reduces the cost of credit for clients. This led to an increase of 30% (2019: 20%) in 13 – 36 month loans advanced during the year.

During the 2020 financial year, growth in the unsecured lending market occurred in the higher income segment. Capitec attracted higher-income clients and advanced better quality loans. This was the driver of a 19% increase (2019: 2% decrease) in 37-84 month loans advanced during the year.

Currently, clients can qualify for credit limits of up to R250 000 on our credit card, with interest rates as low as prime. They are able to perform free cashless payments worldwide at Mastercard® card machines, online and for telephone and mail orders.

17% growth in retail loan book

The retail loan book increased to R65.4 billion as at 29 February 2020 (2019: R55.9 billion).

The retail gross credit card book grew by 61% to R5.8 billion (2019: R3.6 billion) and comprises approximately 4.4% of the total South African retail credit card market. An average of 17 000 new credit cards were issued per month.

Up-to-date term loan and credit card balances comprise 84.6% (2019: 85.2%) of the gross retail loan book. Gross loans and credit cards in arrears by 3 months or more (including debt review and handed over loans) grew to R7.4 billion from R5.7 billion in 2019. Loans are written off when there is no reasonable expectation of recovery of more than 5% of the gross balance before write-off. Loans now remain on book for longer than they did before the implementation of the current write-off policy under IFRS 9, and this resulted in an increase in stage 3 loans. These loans are provided for at 85.0% (2019: 90.2%) based on historical data and forward-looking information. The provision percentage is lower than in the previous year because there is a higher proportion of debt review clients included in the stage 3 loan balance. We recover more on debt review clients and therefore the provision percentage applied to debt review loan balances is lower.

Retail net credit impairment charge of R4.4 billion

The gross credit impairment charge increased by 14% from R4.9 billion to R5.6 billion during this financial year. The gross credit impairment charge as a percentage of average gross loans and advances was 9.3% (2019: 9.5%). This reflects the agility with which we are able to adjust credit granting criteria in changing circumstances. We are able to do this based on a thorough understanding of our clients and the industries in which they operate. Our understanding is informed by strong data driven analytics, leveraging external market information and the risk awareness of our branch network.

It is now 24 months since the implementation of the new write-off policy and loans have moved out of default, debt review and handed over categories into write-off, therefore increasing the bad debts written off compared to the previous year when the policy had been in place for 12 months only. Bad debts written-off amounted to R5.1 billion (2019: R1.3 billion; 2018: R6.7 billion). Concurrently, the movement in the credit impairment provision decreased to R0.5 billion (2019: R3.6 billion) as the default, debt review and handed over books stabilised. Refer to the table below.

In conjunction with the increase in bad debt recoveries, the net credit impairment charge decreased by 2%. Bad debts recovered increased from R467 million in the previous year to R1.3 billion. The prior year figure was net of the R906 million in expected recoveries held on balance sheet as at 1 March 2018, in accordance with IAS 39. These recoveries realised during the 2019 financial year and the amount on book was netted to bad debt recoveries.

The table below represents the change in write-off, movement in credit impairment and bad debts recovered for retail banking:

		2020	2019	2018
Bad debts written off[1]	R'm	**5 106**	1 268	6 663
Movement in provision for credit impairment[1]	R'm	**517**	3 649	(103)
Gross credit impairment charge[2]	R'm	**5 623**	4 917	6 560
Bad debts recovered[3]	R'm	**(1 263)**	(467)	(1 280)
Recoveries	R'm	**(1 263)**	(1 373)	(1 280)
Expected recoveries realised	R'm	**–**	906	–
Net credit impairment charge[2]	R'm	**4 360**	4 450	5 280

(1) *Due to the transition to IFRS 9, the bad debts written off and the movement in credit impairment lines should be considered together*

(2) *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and the credit impairment charge by R1 526 million for this year (February 2019: R1 073 million)*

(3) *Bad debts recovered includes R67 million (2019: R6.1 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted at transition to IFRS 9*

In total the net credit impairment charge to average gross loans and advances (credit loss ratio) decreased to 7.2% (2019: 8.6%). This is an indication of the better quality loan book and reflects the success of continual adjustments to the credit granting criteria.

Although it was a non-adjusting post balance sheet event, the expected impact of the COVID-19 pandemic based on information available at 29 February 2020 was considered by stressing the loan book and the economic impairment model. Based on the information at the time, we concluded that the group held sufficient provisions.

The continued migration of our book towards the responsible use of credit by our clients, positions us strongly for the future.

Diversification

The Capitec funeral product was launched in May 2018. The product is personalised according to our clients' needs. Our clients choose a premium that fits their budget, putting them in control of this important decision. When our clients make use of our banking app to purchase funeral cover, their premiums are lower.

During this period, the first full financial year since the product launched, more than 1.1 million funeral policies were issued. Since inception 85% of the more than 1.6 million funeral policies were issued in the branches.

Of the total funeral plan policies issued since inception, 58% are active. This is in line with our expectations and market trends. The claims experience is lower than expected due to the book still maturing.

New opportunities

Acquisition of Mercantile Bank

We have a new opportunity to offer a digitally led business banking solution for small to medium size enterprises and entrepreneurs, based on the same fundamentals that made us successful in the retail banking sector.

On 7 November 2019, Capitec acquired Mercantile. Mercantile offers a comprehensive range of products that cater to the banking needs of businesses and entrepreneurs. Mercantile's business model is based on personalised client service and client experience, making it an ideal fit for the Capitec business bank.

Currently the two banks run independently with retail banking clients served in Capitec branches and business banking clients in Mercantile's 12 business centres.

Mercantile has 68 000 clients and 561 employees. For the 4 months since Mercantile became a wholly-owned subsidiary of Capitec Bank, total lending and investment income was R479 million with a net profit of R3 million. Post its acquisition, Mercantile adopted Capitec's conservative credit loss provision philosophy leading to a net credit impairment charge of R114 million for the 4 months. In February 2020, long-term funding in the amount of R874 million was settled and once-off early settlement fees of R26.4 million before tax were incurred.

Indicates sections that were audited

At the end of February 2020, the Mercantile gross loan book amounted to R10.3 billion with a credit loss provision of R315 million. The net credit impairment charge to average gross loans and advances, after taking all security into consideration, was 1.1% at year end.

Deposits at year end totalled R12.2 billion and comprised R7.4 billion in call savings, R3.8 billion in fixed savings and R884 million in foreign currency deposits.

We believe the acquisition of Mercantile creates exciting opportunities for both Capitec and Mercantile employees. The need for skilled people will increase significantly as we scale to achieve our desired growth.

Although it was a non-adjusting post balance sheet event, the expected impact of the COVID-19 pandemic based on information available at 29 February 2020 was considered by stressing the loan book and provisions model. Based on the information at the time, we concluded that Mercantile held sufficient provisions.

Investing for the future

Retail operating expenses increased by 12% from R7.5 billion to R8.4 billion in the current year. The retail cost-to-income ratio is 40%. Operating expenses increased mainly due to an increase in the number of employees in the digital and credit teams, as well as information technology costs to build the bank of the future.

To date R200 million was spent on the implementation of a SAP general ledger, human resources and procurement system. Costs are included in operating expenses and capital expenditure.

Retail capital expenditure increased to R1.4 billion (2019: R1.1 billion). The increase is mainly attributable to the building of our new head office campus. The total cost of the new head office, which will be completed during the 2021 financial year, will be approximately R900 million. This head office will improve levels of interaction and collaboration between business units. We will all be housed in one building for the first time.

Credit ratings

S&P Global Ratings affirmed Capitec Bank's ratings on 18 December 2019 with a negative outlook. We have a global long-term rating of BB and a short-term global rating of B. The South African long-term national scale rating is zaAA and the short-term rating is zaA-1+. Our global long-term rating is the same as the sovereign rating, as well as those of other large South African banks.

The recent downgrade to counterparty credit ratings will cause risk-weighted asset levels to increase. This will be managed in future by allocating a greater portion of the investment portfolio to sovereign assets which carry a zero risk-weighting. There will be a small decrease in yield earned on this portfolio as a result.

Capital and liquidity

We remain well capitalised with a capital adequacy ratio (CAR) of 30.5% for the group. The acquisition of Mercantile had a significant impact on our capital adequacy ratio as our qualifying capital is measured against the combined risk-weighted assets of Capitec and Mercantile. The impact of the inclusion of Mercantile's risk-weighted assets resulted in a decrease of 5.5% in the group capital adequacy ratio. R12.3 billion of the total group risk-weighted assets is attributable to Mercantile.

International Financial Reporting Standard (IFRS) 16, which relates to leases, was adopted on 1 March 2019 and reduced the CAR by 1.2%. IFRS 16 brings operating leases onto the balance sheet as right-of-use assets with a corresponding lease liability.

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 1 696% and NSFR is 195.6% as a result of our conservative liquidity strategy. The Basel 3 requirement is 100% for both ratios as at 29 February 2020.

The group complies, in all material respects, with the King IV™ requirements. Basel disclosures, in terms of Regulation 43 of the Banks Act, Act 94 of 1990, are available on the Capitec Bank website.

Tax

Net insurance and funeral income is received and recorded from cell captives as a dividend. This income is stated after the tax charge. As net insurance and funeral income increases, the impact on the effective tax rate grows. For the year ended 29 February 2020, tax in the cell captives decreased the income tax expense for retail banking by R402 million (2019: R237 million). As a result, the effective tax rate decreased to 22.4% (2019: 25.2%). Together with the tax paid in the cell captives, net of learnership allowances, the effective tax rate for the bank is 27.4% (2019: 28.5%).

Indicates sections that were audited

Prospects

We will continue to offer more diversified, responsible credit products focusing on the purpose of the loan. An Access Facility which offers clients revolving credit of up to R250 000 with interest rates linked to prime will be launched early in the 2021 financial year. The facility can be accessed via the banking app and clients can choose the payment terms that suit them best. Clients will only pay the monthly administration fee and interest in months when they utilise the facility. This product provides the framework to develop tailored solutions in future to meet other client needs such as funding for education or home improvement.

We have an opportunity to disrupt the business banking market and improve the way in which businesses bank in South Africa. We will continue to make use of technology to understand our clients better and further improve credit quality and client experience.

The COVID-19 pandemic will have a massive impact on South Africa's economy. The severity of the impact on the economy will depend on the length of the national lockdown. We are working together with the South African Reserve Bank and other stakeholders in an attempt to minimise the financial impact on our clients and employees.

Changes in board and executive management

On 6 March 2020, the board appointed Emma Mashilwane as an independent non-executive director. Emma brings with her a wealth of audit, risk and other management knowledge. We look forward to her contribution and welcome her to the board.

Leon Venter and Andre Olivier retire effective 31 March 2020 and 31 May 2020, respectively. Both were part of the executive management team when the retail bank started in 2000. We thank them for their contribution in building the bank to where it is today.

Dividend

Capitec's ordinary dividend policy is to pay out 40% of headline earnings. As Capitec's capital base and liquidity ratios remain strong, it was the intention of the board to declare the final dividend this year. The South African Reserve Bank published Guidance Note 4/2020 on 6 April 2020 in which banks are directed to act prudently in preserving capital and focusing on financial and economic stability. This is due to the absence of appropriate factual information to determine the full impact of the COVID-19 pandemic on the South African economy. There is a clear expectation communicated in the Guidance Note that banks should not declare ordinary dividends for the time being. The board therefore considered the guidance of the Reserve Bank as well as the expectation of ordinary shareholders regarding the dividend declaration. After extensive deliberation, the board decided to support the guidance of the Reserve Bank and decided against the declaration of the final ordinary dividend.

Annual General Meeting

The notice of the annual general meeting of shareholders, scheduled to be held on 29 May 2020, will be available on the Capitec website from 29 April 2020 at https://www.capitecbank.co.za/investor-relations/shareholder-centre/. To the extent that the meeting may have to be held entirely through electronic media, shareholders will be advised of this by announcement on SENS on the week of 18 to 22 May 2020.

The chief financial officer's review will be available in the Integrated Annual Report at www.capitecbank.co.za.

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
14 April 2020

Summary consolidated statement of financial position

As at 29 February 2020

	Audited February 2020 R'm	Audited February 2019 R'm
Assets		
Cash, cash equivalents and money market funds	**42 232**	29 145
Financial assets at FVTPL	**1 504**	–
Financial investments	**17 207**	10 732
Term deposit investments	**–**	9 331
Net loans and advances	**62 043**	44 515
Other receivables	**2 047**	1 643
Net insurance receivable	**217**	236
Derivative assets	**37**	1
Financial assets – equity instruments at FVOCI	**101**	100
Current income tax asset	**5**	286
Interest in associates and joint ventures	**461**	317
Property and equipment	**3 017**	2 210
Right-of-use asset	**2 460**	–
Intangible assets including goodwill	**1 374**	316
Deferred income tax asset	**1 863**	1 596
Total assets	**134 568**	100 428
Liabilities		
Derivative liabilities	**61**	15
Current income tax liability	**14**	–
Deposits	**99 649**	71 365
Wholesale funding	**3 694**	5 078
Other liabilities	**2 530**	2 203
Lease liability	**2 795**	–
Provisions	**171**	91
Deferred income tax liability	**73**	–
Total liabilities	**108 987**	78 752
Equity		
Capital and reserves		
Ordinary share capital and premium	**5 649**	5 649
Cash flow hedge reserve	**(21)**	(10)
Other reserves	**(5)**	–
Foreign currency translation reserve	**30**	5
Retained earnings	**19 855**	15 950
Share capital and reserves attributable to ordinary shareholders	**25 508**	21 594
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**73**	82
Total equity	**25 581**	21 676
Total equity and liabilities	**134 568**	100 428

Summary consolidated income statement

Year ended 29 February 2020

	Audited February 2020 R'm	Audited February 2019 R'm
Lending, investment and insurance income	**19 002**	17 227
Interest income	**17 041**	15 501
Loan fee income	**980**	931
Net insurance income	**981**	795
Lending and investment expenses	**(5 770)**	(4 729)
Interest expense	**(5 680)**	(4 510)
Loan fee expense	**(90)**	(219)
Net lending, investment and insurance income	**13 232**	12 498
Transaction fee income[(1)]	**10 263**	8 474
Transaction fee expense	**(2 847)**	(2 010)
Net transaction income	**7 416**	6 464
Credit impairments	**(4 474)**	(4 450)
Foreign currency income	**38**	–
Funeral income	**413**	54
Other income	**32**	3
Net income	**16 657**	14 569
Operating expenses	**(8 612)**	(7 494)
Share of net profit of associates and joint ventures	**11**	2
Operating profit before tax	**8 056**	7 077
Income tax expense	**(1 805)**	(1 781)
Profit for the year	**6 251**	5 296
Earnings per share (cents)		
• Basic	**5 400**	4 571
• Diluted	**5 391**	4 562

(1) *Transaction fee income consists of: card commission income in the amount of R1.8 billion (2019: R1.5 billion) and other banking fees in the amount of R8.5 billion (2019: R7.0 billion)*

Summary consolidated statement of other comprehensive income

Year ended 29 February 2020

	Audited February 2020 R'm	Audited February 2019 R'm
Profit for the year	**6 251**	5 296
Other comprehensive income that may subsequently be reclassified to profit or loss	**14**	18
Cash flow hedge reserve recognised during the year	**(32)**	5
Cash flow hedge reclassified to profit or loss for the year	**16**	19
Income tax relating to cash flow hedge	**5**	(7)
Foreign currency translation reserve recognised during the year	**25**	1
Other comprehensive income that will not subsequently be reclassified to profit or loss	**(5)**	–
Remeasurement of defined benefit obligation	**1**	–
Loss on remeasurement to fair value of financial assets	**(7)**	–
Income tax thereon	**1**	–
Total comprehensive income for the year	**6 260**	5 314

Reconciliation of attributable earnings to headline earnings

Year ended 29 February 2020

	Audited February 2020 R'm	Audited February 2019 R'm
Net profit attributable to equity holders	**6 251**	5 296
Preference dividend	**(7)**	(9)
Discount on repurchase of preference shares	**(1)**	(2)
Net profit after tax attributable to ordinary shareholders	**6 243**	5 285
Non-headline items:		
Loss on disposal of property and equipment	**46**	9
Income tax charge – property and equipment	**(13)**	(3)
Derecognition of intangible assets	**1**	1
Headline earnings	**6 277**	5 292
Headline earnings per share (cents)		
• Basic	**5 428**	4 577
• Diluted	**5 420**	4 568

Summary consolidated statement of cash flows

Year ended 29 February 2020

	Audited February 2020 R'm	Audited February 2019 R'm
Cash flow from operating activities		
Cash flow from operations*	**18 176**	16 383
Income taxes paid	**(1 772)**	(2 813)
	16 404	13 570
Cash flow from investing activities		
Acquisition of property and equipment	**(1 140)**	(911)
Disposal of property and equipment	**14**	9
Acquisition of intangible assets	**(263)**	(230)
Investment in term deposit investments	**–**	(10 557)
Redemption of term deposit investments	**9 056**	3 947
Acquisition of financial investments	**(16 494)**	(12 611)
Redemption of financial investments	**11 173**	13 655
Acquisition of financial assets at FVTPL	**(1 500)**	–
Redemption of financial assets at FVTPL	**5**	–
Decrease/(increase) in short-term money market investments	**10**	(15)
Interest acquired in associates and joint ventures	**(107)**	(179)
Acquisition of subsidiary net of cash acquired	**1 037**	–
	1 791	(6 892)
Cash flow from financing activities		
Dividends paid	**(2 175)**	(1 831)
Preference shares repurchased	**(9)**	(33)
Issue of institutional bonds and other funding	**500**	500
Redemption of institutional bonds and other funding	**(2 962)**	(1 119)
Payment of lease liabilities	**(246)**	–
Shares acquired for settlement of employee share options	**(294)**	(215)
Participants' contribution on settlement of options	**79**	63
	(5 107)	(2 635)
Effect of exchange rate changes on cash and cash equivalents	**8**	–
Net increase in cash and cash equivalents	**13 096**	4 043
Cash and cash equivalents at the beginning of the year	**29 113**	25 070
Cash and cash equivalents at the end of the year	**42 209**	29 113

* *Includes cash inflow from interest received of R17.0 billion (2019: R15.3 billion) and cash outflow from interest paid of R5.7 billion (2019: R4.5 billion)*

Summary consolidated statement of changes in equity

Year ended 29 February 2020

R'm	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Total
Balance at 28 February 2018	5 649	113	3	(27)	–	13 154	18 892
Changes on initial application of IFRS 9	–	–	–	–	–	(648)	(648)
Restated balance at 1 March 2018	5 649	113	3	(27)	–	12 506	18 244
Total comprehensive income for the year	–	–	2	17	–	5 295	5 314
Transactions with shareholders and directly recorded in equity	–	(31)	–	–	–	(1 851)	(1 882)
Ordinary dividend	–	–	–	–	–	(1 821)	(1 821)
Preference dividend	–	–	–	–	–	(9)	(9)
Employee share option scheme: value of employee services	–	–	–	–	–	32	32
Shares acquired for employee share options at cost	–	–	–	–	–	(215)	(215)
Proceeds on settlement of employee share options	–	–	–	–	–	63	63
Tax effect on share options	–	–	–	–	–	101	101
Preference shares repurchased	–	(31)	–	–	–	(2)	(33)
Balance at 28 February 2019	**5 649**	**82**	**5**	**(10)**	**–**	**15 950**	**21 676**
Total comprehensive income for the year	**–**	**–**	**25**	**(11)**	**(5)**	**6 251**	**6 260**
Transactions with shareholders and directly recorded in equity	**–**	**(9)**	**–**	**–**	**–**	**(2 346)**	**(2 355)**
Ordinary dividend	**–**	**–**	**–**	**–**	**–**	**(2 168)**	**(2 168)**
Preference dividend	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Employee share option scheme: value of employee services	**–**	**–**	**–**	**–**	**–**	**28**	**28**
Shares acquired for employee share options at cost	**–**	**–**	**–**	**–**	**–**	**(294)**	**(294)**
Proceeds on settlement of employee share options	**–**	**–**	**–**	**–**	**–**	**79**	**79**
Tax effect on share options	**–**	**–**	**–**	**–**	**–**	**16**	**16**
Preference shares repurchased	**–**	**(9)**	**–**	**–**	**–**	**–**	**(9)**
Balance at 29 February 2020	**5 649**	**73**	**30**	**(21)**	**(5)**	**19 855**	**25 581**

Notes to the summary financial statements

Year ended 29 February 2020

1. Basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The accounting policies applied in the preparation of the audited consolidated financial statements of Capitec Bank Holdings Limited for the year ended 29 February 2020 from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those applied in the 2019 consolidated financial statements, with the exception of IFRS 16 *Leases*, which was effective from 1 March 2019, and the inclusion of the IFRS 3 *Business combinations*.

Refer to note 6 regarding IFRS 16. IFRS 3 was applied to the acquisition of Mercantile, the identification of assets and liabilities, the identification and valuation of intangible assets and the calculation of goodwill. Refer to note 8.

All other standards, interpretations and amendments to published standards applied for the first time during the current financial period, did not have any significant impact on the financial statements.

The sections enclosed by blue dotted lines as well as the summary consolidated statement of financial position, summary consolidated income statement, summary consolidated statement of other comprehensive income, reconciliation of attributable earnings to headline earnings, summary consolidated statement of cash flows, summary consolidated statement of changes in equity and notes to the summary financial statements are audited.

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

Significant judgments and estimates

Expected credit losses (ECL) on loans and advances

In calculating the ECL for the year, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historic data is used to project ECL. The COVID-19 pandemic was treated as a non-adjusting, post-balance sheet event. As such, information available up to 29 February 2020 was considered in determining the severity of the negative economic scenarios applied. Refer to note 9.

Acquisition of Mercantile Bank

On 7 November 2019 (effective date of the acquisition) the group acquired 100% of the ordinary shares in Mercantile for a cash consideration of R3.56 billion. The identified fair value of the business was R2.76 billion resulting in the recognition of R794 million in goodwill. The following judgements were applied in identifying intangible assets acquired and determining the fair value of such tangible and intangible assets.

The fair value of these assets and liabilities was determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. For loans and advances and deposits, this included consideration of the expected maturity profile and variability of pricing.

The company's business model, business plan, existing rights or licences and value drivers were analysed to identify intangible assets. In order to be recognised the intangible asset had to be separately identifiable, controlled by the business, be a probable source of future economic benefits and have a fair value that could be easily measured. The intangible assets are amortised over their useful lives as they do not have indefinite economic benefits.

The value of the core deposit intangibles was determined using the net cost saving methodology, while the client relationships intangible was calculated by applying the multi-period excess earnings methodology. Goodwill was calculated as the difference between the consideration paid and the fair value of identifiable assets and liabilities as at the acquisition date.

The impact of COVID-19 on financial goodwill assumptions was considered by adjusting the forward-looking growth rates applied in estimating future cash flows downwards by 19% for year 1, to the extent information was available at 29 February 2020.

2. Net loans and advances

Business banking 2020	**Stage 1**		**Stage 2**				**Stage 3**	
R'm	Up-to-date	Up to 1 month in arrears	Up-to-date loans with SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for business rescue/ liquidations	Total
Balance at 29 February 2020								
Gross loans and advances	**9 230**	**85**	**124**	**28**	**226**	**71**	**581**	**10 345**
Cumulative provision	**(84)**	**(1)**	**(11)**	**(4)**	**(16)**	**(11)**	**(188)**	**(315)**
Net loans and advances	**9 146**	**84**	**113**	**24**	**210**	**60**	**393**	**10 030**
Provision %*	**0.9**	**0.7**	**8.6**	**15.9**	**6.9**	**15.5**	**32.5**	**3.0**

* *The provision % is calculated before rounding, as derived from the audited consolidated financial statements.*

Retail banking 2020	**Stage 1**	**Stage 2**		**Stage 3**				
R'm	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Up to 1 month in arrears	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance at 29 February 2020								
Gross loans and advances	**48 311**	**4 446**	**1 172**	**1 550**	**1 130**	**1 471**	**7 358**	**65 438**
Cumulative provision	**(3 304)**	**(1 061)**	**(651)**	**(1 130)**	**(455)**	**(567)**	**(6 257)**	**(13 425)**
Net loans and advances	**45 007**	**3 385**	**521**	**420**	**675**	**904**	**1 101**	**52 013**
Provision %	**6.8**	**23.9**	**55.5**	**72.9**	**40.3**	**38.5**	**85.0**	**20.5**
2019								
Balance at 28 February 2019								
Gross loans and advances(1)	41 587	3 765	1 087	1 483	900	1 354	5 719	55 895
Cumulative provision(1)	(2 671)	(771)	(582)	(1 192)	(389)	(617)	(5 158)	(11 380)
Net loans and advances	38 916	2 994	505	291	511	737	561	44 515
Provision %(1)	6.4	20.5	53.5	80.4	43.2	45.5	90.2	20.4

(1) *At 28 February 2019, the gross carrying amount disclosed did not include impaired interest on Stage 3 advances. The gross carrying amount comprised of the principal debt component and the expected recoverable interest. Gross carrying amount was presented in this manner to align to the income statement presentation under IFRS 9 which requires interest to be recognised on a net basis i.e. after expected credit loss (ECL). In the current year, the gross carrying amount was updated to include all contractual cash flows before ECL. This is consistent with the definition of gross carrying amount in IFRS 9 and is aligned to industry practice under IFRS 9 to apply the definition not only to Stage 1 and 2 advances, but also to Stage 3 advances regardless of the income statement presentation. The gross carrying amount at 28 February 2019 has therefore been grossed up by R1 016 million. There is no impact on net loans and advances*

3. Commitments and contingent liabilities

	Audited February 2020 R'm	Audited February 2019 R'm
Capital commitments approved by the board		
Contracted for:		
Property and equipment	**254**	572
Intangible assets	**94**	116
Not contracted for:		
Property and equipment	**501**	973
Intangible assets	**128**	440
	977	2 101
Loan commitments	**1 825**	912
Retail	**1 522**	912
Business	**303**	–
Guarantees – business (property bonds)	**639**	–
	2 464	912

4. Fair values

In terms of IFRS 13 *Fair value measurement*, the fair value determined for disclosure purposes of retail banking loans and advances (level 3) was R52.2 billion (2019: R44.7 billion), business banking loans and advances was R10.0 billion, retail banking deposits (level 2) was R87.9 billion (2019: R71.6 billion), business banking deposits was R12.2 billion and wholesale funding (level 2) was R3.7 billion (2019: R5.2 billion). The measured fair value of financial assets at FVTPL was R1.5 billion (2019: Rnil), derivative assets (level 2) was valued at R37.4 million (2019: R0.5 million), financial instruments at FVOCI (level 3) was R101 million (2019: R100 million) and derivative liabilities (level 2) was R61.0 million (2019: R14.7 million). The fair value of all other financial instruments equates to their carrying amount. There were no transfers between levels.

5. Segmental analysis

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segments and to assess their performance. The executive management committee, headed by the CEO has been identified by the group as the CODM, who is responsible for assessing the performance and allocation of resources of the group.

The CODM identified two operating segments – retail and business 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 retail and business banking for which discrete financial information is made available on a monthly basis and against which performance is measured and resources are allocated across the segments.

Within the segments are a number of products and services that the group derives its revenue from. These include:

Retail banking

- Transactional banking services of which transaction fee income is disclosed on the face of the consolidated income statement;
- Loan products that are granted to retail clients. There are three different loan products granted, namely term loans, credit facilities and credit cards. Interest, monthly fees and net insurance income are earned; and
- Profit sharing arrangement with regards to the funeral insurance policy sold by the group.

Business banking

- Loan products that are granted to business banking clients. There are five different loan products granted, namely term loans, mortgage loans, credit facilities, instalment sales and leases and credit cards. Interest and monthly fees are earned; and
- Treasury products include foreign exchange spot trades, foreign exchange forward contracts, vanilla FX options and money market call or term deposits. Trading income is disclosed on the face of the income statement.

Although the group operates within the South African economic environment, the group does hold an investment in Creamfinance, located in Cyprus with subsidiaries mainly based in a number of European countries. Creamfinance is an associate over which the group does not have control.

The revenue from external parties and all other items of income, expenses, profits and losses reported in the segment report is measured in a manner consistent with that in the income statement.

	2020			2019		
R'm	**Retail**	**Business**	**Total**	**Retail**	**Business**	**Total**
Lending, investment and insurance income	**18 537**	**479**	**19 002**	17 227	–	17 227
Interest income	**16 581**	**474**	**17 041**	15 501	–	15 501
Loan fee income	**975**	**5**	**980**	931	–	931
Net insurance income	**981**	**–**	**981**	795	–	795
Lending and investment expenses	**(5 534)**	**(250)**	**(5 770)**	(4 729)	–	(4 729)
Interest expense	**(5 444)**	**(250)**	**(5 680)**	(4 510)	–	(4 510)
Loan fee expense	**(90)**	**–**	**(90)**	(219)	–	(219)
Net lending, investment and insurance income	**13 003**	**229**	**13 232**	12 498	–	12 498
Transaction fee income	**10 095**	**168**	**10 263**	8 474	–	8 474
Transaction fee expense	**(2 736)**	**(111)**	**(2 847)**	(2 010)	–	(2 010)
Net transaction income	**7 359**	**57**	**7 416**	6 464	–	6 464
Credit impairments	**(4 360)**	**(114)**	**(4 474)**	(4 450)	–	(4 450)
Foreign currency income	**–**	**38**	**38**	–	–	–
Funeral income	**413**	**–**	**413**	54	–	54
Other income	**19**	**13**	**32**	3	–	3
Net income	**16 434**	**223**	**16 657**	14 569	–	14 569
Operating expenses	**(8 392)**	**(216)**	**(8 608)**	(7 494)	–	(7 494)
Amortisation of intangible assets – core deposits(1)	**–**	**–**	**(4)**	–	–	–
Share of net profit of associates and joint ventures	**11**	**–**	**11**	2	–	2
Operating profit before tax	**8 053**	**7**	**8 056**	7 077	–	7 077
Income tax expense	**(1 802)**	**(4)**	**(1 806)**	(1 781)	–	(1 781)
Tax on amortisation of intangible assets(1)	**–**	**–**	**1**	–	–	–
Profit for the year	**6 251**	**3**	**6 251**	5 296	–	5 296

R'm	2020 Retail	2020 Business	2020 Total	2019 Retail	2019 Business	2019 Total
Assets						
Net loans and advances	52 013	10 030	62 043	44 515	–	44 515
Other[(1)(2)]	67 854	5 720	71 637	55 913	–	55 913
Acquisition of Mercantile	–	–	888	–	–	–
Goodwill[(1)]	–	–	795	–	–	–
Intangible asset – Core deposit intangible[(1)]	–	–	76	–	–	–
Intangible asset – Client relationships[(1)]	–	–	17	–	–	–
Total assets[(2)]	119 867	15 750	134 568	100 428	–	100 428

(1) *Consolidation entries*
(2) *The retail and business banking assets include an amount of R1.9 billion in investments that eliminates against liabilities at a group level*

6. IFRS 16 *Leases* (effective 1 March 2019)

The core principle of this standard is that the lessee and the lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. Capitec elected, as permitted by IFRS 16, not to restate comparative financial statements. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 March 2019. In terms of this approach, comparative information is not restated and the right-of-use asset at the date of initial application for leases previously classified as operating leases (IAS 17) is equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments relating to the leases.

Definition of a lease

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If the contract contains a lease and the group is the lessee the group recognises a right-of use asset and a lease liability at the lease commencement date.

Right-of-use asset and lease liability

The right-of-use asset is initially measured at cost (which is equal to the lease liability adjusted for upfront deposits) and increased with initial direct cost incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset. The group applies the cost model subsequent to the initial measurement of the right-of-use assets. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use assets are determined on the same basis as for property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for remeasurements of the liability.

The lease liability is initially measured at the present value of the remaining lease payments on the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be determined, the lessee uses its lessee's incremental borrowing rate. The incremental borrowing rate will be used on a portfolio basis, as a specific rate for a single lease asset does not materially differ from the rate obtained on a portfolio basis. The rate is based on the three monthly swap curve and the basis for this curve is the three-month JIBAR. The term and structures of the base rates and spreads are solved to a single rate for each lease maturity, to take into account the fixed rate nature of the incremental borrowing rates in IFRS 16. Inputs considered include: the inclusion of a Capitec specific margin, aligning the maturities of our bonds in issue to the cash flows of our current lease portfolio, adjusting the curve to reflect a secured lending rate and updating the convention of the curve to a monthly convention. The lease liability is subsequently increased by interest cost on the lease liability and decreased by lease payments made.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments, variable lease payments that depend on an index or a rate, amounts payable under a residual value guarantee, and the exercise price under a purchase option that the group is certain to exercise.

Practical expedients

In addition, the group applied the following practical expedients on transition which are permitted under the standard:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months.
- Accounted for all low value assets on a straight-line basis over the lease term.
- Relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no material onerous leases on 1 March 2019.
- Used a single discount rate for a portfolio of leases with reasonably similar characteristics.
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Applied the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 March 2019.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

For leases of branches the following factors are the most relevant:

- Whether there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend.
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend.
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the group.

IFRS 16 introduced additional guidance on determining reasonable certainty when assessing lease terms. On transition date, the group utilised the additional guidance relating to reasonable certainty and applied the hindsight practical expedient to include the extension options of leases entered into before 1 March 2019. The application of the new guidance and practical expedient resulted in an increase of R2.0 billion in undiscounted operating lease commitments.

Short-term and low value leases

The group elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term shorter than 12 months and leases of low-value assets. Low value assets comprise IT-equipment. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where the group is the lessor

Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term. Subletting is incidental to the group's occupation of certain properties. Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

These agreements consist of rental finance and instalment sale agreements. The rental finance agreements are typically granted to our business banking clients to lease security equipment, copiers and telecommunication equipment. The instalment sale agreements are granted to finance motor vehicles and equipment of our business banking clients.

Impacts on the financial statements on transition

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities. Rental contracts are typically for a fixed period of 5 years but may have extension options as described above. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

On transition to IFRS 16, the group recognised right-of-use assets and lease liabilities. The impact on transition was recognised below as at 1 March 2019.

	R'm
Right-of-use asset	2 603
Straight-lining accrual	147
Lease liability	2 750

The total undiscounted operating lease commitments as at 28 February 2019 amount to R1.9 billion, the lease liability as at 1 March 2019 amounted to R2.7 billion. The differences primarily relate to extension periods previously not included in the lease commitments to the value of R2.0 billion, which increased the undiscounted operating lease commitments. The undiscounted operating lease commitments balance was discounted using the group's incremental borrowing rate curve which ranges from 7.4% – 11.24%.

	R'm
Operating lease commitments as at 28 February 2019	1 920
Add: Adjustments as a result of a different treatment of extension and termination options	2 015
Operating lease commitments as at 1 March 2019	3 935
Less: Short-term lease commitments	(9)
Less: Low-value lease commitments	–
Total commitments to be discounted using the incremental borrowing rate at the date of initial application	**3 926**
Lease liabilities recognised as at 1 March 2019	**2 750**
Of which are:	
Current lease liabilities	241
Non-current lease liabilities	2 509
	2 750

As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the group recognised right-of-use assets of R2 460 million and lease liabilities of R2 795 million as at 29 February 2020.

Also in relation to leases under IFRS 16, the group recognised depreciation and interest costs, instead of operating lease expenses. During the period, the group recognised R421 million in depreciation in operating expenses and R256 million in interest costs in interest expense for these leases.

Earnings per share decreased by approximately 87 cents per share for the year ended 29 February 2020 as a result of the adoption of IFRS 16.

7. Related party transactions

Included in the wholesale funding balance is R105 million (2019: R143 million) held by a related party to a significant shareholder.

8. Business combination

On 7 November 2019, the group obtained control over Mercantile Bank Holdings Limited by acquiring 100% of the shares and voting interest. Mercantile Bank Limited is involved in the full spectrum of domestic and international banking and financial services to niche markets within commercial banking. The acquisition is expected to provide the group with a share in commercial banking.

In the four months to 29 February 2020, Mercantile Bank Limited contributed profit after tax of R3.4 million and total revenue of R647 million to the group's results. If the acquisition had occurred on 1 March 2019, management estimates that consolidated total revenue would have increased by R2.0 billion and profit after tax by R175 million.

The purchase price of R3.56 billion was settled in cash. Capitec Bank incurred acquisition related costs of R9.5 million (mainly Securities transfer tax) during the year and these are included in operating expenses for the year ending 29 February 2020.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

R'm	Fair value
Cash, cash equivalents and money market funds	4 593
Financial investments	786
Net loans and advances	10 141
Trade and other receivables	377
Derivative financial instruments	62
Financial assets	8
Property and equipment	240
Right-of-use asset	14
Intangible assets	97
Core deposit intangible	81
Client relationships intangible	18
Deferred income tax asset	42
Derivative financial instruments	(59)
Current income tax liability	(35)
Deposits	(11 744)
Other liabilities	(397)
Wholesale funding	(1 245)
Lease liability	(15)
Provisions	(104)
Deferred income tax liability	(99)
Fair value of identifiable net assets including identified intangibles	**2 761**

Additional intangible assets were identified by management, together with external valuation experts. The external experts and management have applied judgement in identifying the intangible assets that result from the acquisition and have made use of estimates and assumptions in order to determine the fair value of the goodwill, core deposit intangible and client relationships intangible.

The most significant intangible, other than goodwill, relates to core deposit intangible. The value of the core deposits intangible was determined by applying the net funding benefit methodology. The fair value is calculated as the present value of the estimated net funding benefit attributable to the core deposit base over the expected remaining life of the deposit base. This benefit is determined as the internal costs of funding (interest) arising from client deposits versus the prevailing market rate for alternative funding sources.

The key assumptions used in determining the fair value of the core deposit intangible asset are as follows: attrition rate, discount rate, alternative cost of funding and the cost of deposits.

Money market funds were classified as cash equivalents on acquisition date, due to the funds having a low risk of significant changes in value. The funds were used to meet short-term commitments. They were short-term and highly liquid, convertible to known amounts of cash instruments.

The loans and other receivables acquired as part of the business combination are listed below:

R'm	Gross loans and advances	ECL	Net amount	Fair value
Business other	5 015	(207)	4 808	4 808
Mortgage loans	5 393	(59)	5 334	5 334
Trade and other receivables	377	–	377	377
Total	10 785	(266)	10 519	10 519

Goodwill is attributable mainly to the synergies arising from the acquisition as it provides the group with access to business banking, opportunities to diversify the business and the skills and technical talent of the Mercantile workforce. None of the goodwill recognised is expected to be deducted for tax purposes.

	R'm
Total consideration transferred	3 556
Fair value of identifiable net assets	(2 761)
Goodwill	795

Purchase consideration – cash flow	
Outflow of cash to acquire Mercantile Bank	3 556
Less: cash balance acquired	(4 593)
Net inflow of cash – Investment activities	(1 037)

The cash balance acquired as part of the purchase price allocation (PPA) is different to the cash acquired for cash flow statement purposes, this is mainly due to the ECL of R0.3 million.

9. Events past the date of the statement of financial position

In terms of IAS 10 *Events after the reporting period*, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 29 February 2020. It was concluded that the declaration of COVID-19 as a pandemic is such an event. The impact of COVID-19 on accounting standards that require the use of forward-looking information (expected credit losses and goodwill impairment) was assessed based on information available as at 29 February 2020.

This pandemic could result in a global economic downturn that will have an adverse impact on the retail and commercial loan books, sovereign exposures (predominantly through treasury bills) and intangible assets valuations. The global economic decline, reduced trade and measures to control the spread of the virus may lead to unemployment and reduced income, along with a substantial fall in GDP as well as adjustments to fiscal and monetary policies to respond to the crisis. Overall sovereign creditworthiness may be impacted as growth rates decline and revenue targets are not met.

It is anticipated that the COVID-19 pandemic may impact the Bank's profitability for the year ending 28 February 2021 in respect of below. It is, however, not possible to make an accurate estimate of its full financial effect for the year ahead as the virus's infection rate and impact on macro-economic conditions is fluid.

Loans and advances, net lending and insurance income, credit impairments

Credit extension may be impacted by the pandemic. Due to higher unemployment and lower real wage rates clients' affordability will be affected, resulting in clients qualifying for smaller loans but at higher interest rates. This will have an effect on net lending and insurance income.

The default rates and default recovery rates used in the measurement of expected credit loss provisions and the credit impairment charge could be significantly impacted due to repayment delays and/or requests to extend loan repayments. There is no historic data to relate the predicted stress of the pandemic (low interest rates and inflation with low GDP and higher unemployment) to default rates. The predicted extent of the stress varies widely. The JSE market indices are already close to a 1 in 100 year stress. There is no reliable or representative credit risk data going back that far for any South African bank.

Deposits, investment income and interest expense

Lower credit extension will impact on the funds dispensed to advance loans. However, lower GDP growth and higher unemployment rates could stunt growth in deposits as clients have less money available to save. The group will therefore experience fluctuations in the excess cash available to invest. Investment income will be impacted by lower interest rates and interest paid to clients will be affected by the change in savings behaviour and lower interest rates.

Independent auditor's report on the summary consolidated financial statements

To the Shareholders of Capitec Bank Holdings Limited

Opinion

The summary consolidated financial statements of Capitec Bank Holdings Limited, set out on pages 9 to 23 of the preliminary report titled Audited Summary Financial Statements for the year ended 29 February 2020, which comprise the summary consolidated statement of financial position as at 29 February 2020, the summary consolidated income statement and the summary consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Capitec Bank Holdings Limited for the year ended 29 February 2020.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in the notes to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Certain required disclosures have been presented elsewhere in the accompanying preliminary report of Capitec Bank Holdings Limited, rather than in the notes to the summary consolidated financial statements. These are cross-referenced from the summary financial statements and are identified as audited.

Other matter

Except for the sections enclosed by dotted lines, we have not audited the key performance indicators and comments expressed by the directors included in the commentary in the accompanying preliminary report of Capitec Bank Holdings Limited and accordingly do not express an opinion thereon.

Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 14 April 2020. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, set out in the notes to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane, Waterfall City, South Africa
14 April 2020

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Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196; Private Bag X9000, Saxonwold, 2132

Sponsor

PSG Capital Proprietary Limited (Registration number: 2006/015817/07)

Directors

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NS Mashiya (CRO)*, JD McKenzie, DP Meintjes, PJ Mouton, CA Otto, JP Verster.

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