simplify banking, live better

Integrated Annual Report **2020** Capitec Bank Limited

CAPITEC
BANK

Our cover design:
Our new head office in Techno Park, Stellenbosch.
Read more about the green initiatives
incorporated in the design on page 132.


hello

Key performance indicators

		2020 Group	2020 Retail	2019 Retail*	Change % 2020/2019 Group	Change % 2020/2019 Retail	2018	2017
Profitability								
Interest income on loans[1]	R'm	13 552	13 196	12 723	7	4	13 216	13 225
Interest income on investments	R'm	3 489	3 385	2 778	26	22	2 258	1 709
Total interest income	R'm	17 041	16 581	15 501	10	7	15 474	14 934
Net loan fee and insurance income	R'm	1 871	1 866	1 507	24	24	1 380	495
Total lending, investment and insurance income less loan fee expense	R'm	18 912	18 447	17 008	11	8	16 854	15 429
Interest expense[1]	R'm	(5 680)	(5 444)	(4 510)	26	21	(4 184)	(3 552)
Net lending, investment and insurance income	R'm	13 232	13 003	12 498	6	4	12 670	11 877
Net transaction fee income	R'm	7 416	7 359	6 464	15	14	5 127	3 923
Other income	R'm	32	19	3			(1)	–
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	17 796	15 800
Credit impairment charge[1]	R'm	(4 474)	(4 360)	(4 450)	1	(2)	(5 280)	(5 121)
Net income	R'm	16 657	16 434	14 569	14	13	12 516	10 679
Income from associates and joint ventures	R'm	11	11	2			3	–
Operating expenses[1]	R'm	(8 612)	(8 392)	(7 494)	15	12	(6 364)	(5 439)
Income before tax	R'm	8 056	8 053	7 077	14	14	6 155	5 240
Tax	R'm	(1 805)	(1 802)	(1 781)	1	1	(1 685)	(1 434)
Preference dividend	R'm	(7)	(7)	(9)	(22)	(22)	(12)	(16)
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	4 458	3 790
Headline	R'm	6 277	6 277	5 292	19	19	4 461	3 793
Net transaction fee and funeral income to net income[1]	%	47	47	45			41	37
Net transaction fee and funeral income to operating expenses[1]	%	91	93	87			81	72
Cost-to-income ratio[1]	%	41	40	39			36	34
Return on ordinary shareholders' equity	%	28	28	28			27	27
Earnings per share								
Attributable	cents	5 400	5 400	4 571	18	18	3 855	3 278
Headline	cents	5 428	5 428	4 577	19	19	3 858	3 281
Diluted attributable	cents	5 391	5 391	4 562	18	18	3 843	3 267
Diluted headline	cents	5 420	5 420	4 568	19	19	3 846	3 270
Dividends per share								
Interim	cents	755		630	20		525	450
Final	cents	–		1 120			945	800
Total	cents	755		1 750	(57)		1 470	1 250
Dividend cover	times	7.2		2.6			2.6	2.6
Assets								
Net loans and advances	R'm	62 043	52 013	44 515	39	17	40 927	39 205
Financial instruments at amortised cost[2]	R'm	59 439	56 491	49 208	21	15	39 387	30 605
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	100	100
Right-of-use asset (IFRS 16)	R'm	2 460	2 448	–			–	–
Other	R'm	7 153	9 028	4 723	51	91	3 139	2 988
Current income tax asset	R'm	5	–	286	(98)		–	–
Deferred income tax asset	R'm	1 863	1 838	1 596	17	15	1 168	460
Total assets[10]	R'm	134 568	123 422	100 428	34	23	84 721	73 358
Liabilities								
Deposits and wholesale funding	R'm	103 343	90 833	76 443	35	19	64 030	55 582
Lease liability (IFRS 16)	R'm	2 795	2 782	–				
Other	R'm	2 835	4 208	2 309	23	82	2 447	1 658
Current income tax liability	R'm	14	14	–				
Total liabilities	R'm	108 987	97 837	78 752	38	24	66 477	57 240
Equity								
Shareholders' funds	R'm	25 581	25 585	21 676	18	18	18 244	16 118
Capital adequacy ratio	%	31		34			35	34
Net asset value per ordinary share	cents	22 061		18 676	18		15 681	13 809
Share price	cents	129 999		130 621	(0)		83 246	72 500
Market capitalisation	R'm	150 314		151 033	(0)		96 255	83 830
Number of shares in issue	'000	115 627		115 627	0		115 627	115 627
Share options								
Number outstanding	'000	491	482	640	(23)	(25)	777	963
Number outstanding to shares in issue	%	0.4	0.4	0.6			0.7	0.8
Average strike price	cents	70 889	69 670	50 644	40	38	38 561	31 755
Average time to maturity	months	21	20	18			19	20
Operations								
Branches		864	852	840	3	1	826	796
Employees		14 590	14 029	13 774	6	2	13 333	13 069
Active clients	'000	13 887	13 819	11 386	22	21	9 868	8 569
ATMs and DNRs								
Own		2 388	2 380	2 090	14	14	1 895	1 653
Partnership		3 264	3 264	2 921	12	12	2 750	2 371
Total		5 652	5 644	5 011	13	13	4 645	4 024
Capital expenditure	R'm	1 403	1 396	1 141	23	22	829	1 000

			2020		2019	Change % 2020/2019			
			Group	Retail	Retail*	Group	Retail	2018	2017
Credit sales									
Value of credit card disbursements/drawdowns		R'm	9 934	9 799	6 193	60	58	3 949	864
Value of term loans advanced[3]		R'm	28 809	28 666	23 475	23	22	24 343	26 362
Value of credit facility disbursements/drawdowns		R'm	651	651	1 300	(50)	(50)	1 833	2 836
Value of mortgage loans advanced		R'm	509	–	–			–	–
Value of other loans advanced[9]		R'm	14 855	–	–			–	–
Value of total loans advanced		R'm	54 758	39 116	30 968	77	26	28 292	27 226
Number of total loans advanced[4][9]		'000	5 938	5 921	4 889	21	21	3 947	3 508
Average credit card disbursement/drawdown		R	2 220	2 195	1 974	12	11	2 296	3 703
Average term loan advanced		R	27 553	27 419	26 181	5	5	23 634	18 074
Average total credit facility disbursement/drawdown		R	1 583	1 583	1 521	4	4	1 439	1 438
Average mortgage loan advanced		R	3 977 984	–	–			–	–
Average other loan advanced[9]		R	2 373 719	–	–			–	–
Average loan advanced[9]		R	9 222	6 606	6 334	46	4	7 168	7 761
Credit book									
Gross loans and advances[5]		R'm	75 783	65 438	55 895	36	17	47 642	45 135
Up-to-date	Stage 1	R'm	57 626	48 311	41 587	39	16	37 165	39 076
Up-to-date with SICR	Stage 2	R'm	4 570	4 446	3 765	21	18	4 401	
Total up-to-date		R'm	62 196	52 757	45 352	37	16	41 566	39 076
Arrears	Stage 2	R'm	1 200	1 172	1 087	10	8	1 003	1 641
Arrears[5]	Stage 3	R'm	1 550	1 550	1 483	5	5	1 697	1 214
Total arrears		R'm	2 750	2 722	2 570	7	6	2 700	2 855
Application for debt review within 6 months	Stage 3	R'm	83	83	70	19	19	108	–
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	1 085	1 088
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	1 277	1 583
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	2 672	2 601	2 255	18	15	2 362	2 671
More than 3 months in arrears and legal status	Stage 3	R'm	7 856	7 275	5 649	39	29	–	–
Expected recoveries receivable[7]	Stage 3	R'm	–	–	–			906	533
Total provision for credit impairments[5]		R'm	13 740	13 425	11 380	21	18	6 715	5 930
Net loans and advances		R'm	62 043	52 013	44 515	39	17	40 927	39 205
Total provision for credit impairments to stage 3 and stage 2 (excluding SICR) coverage[5]		%	101	106	108			130	107
Repayments		R'm	58 834	42 836	38 100	54	12	35 974	33 236
Gross credit impairment charge[1]		R'm	5 737	5 623	4 917	17	14	6 560	6 246
Bad debts recovered[7]		R'm	1 263	1 263	467			1 280	1 125
Net credit impairment charge[1]		R'm	4 474	4 360	4 450	1	(2)	5 280	5 121
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1]		%	6.3	7.2	8.6			11.4	11.9
Total lending and insurance income (excluding investment income)[8]		R'm	15 517	15 152	14 448	7	5	15 008	14 362
Net credit impairment charge to total lending and insurance income (excluding investment income)[1][8]		%	28.8	28.8	30.8			35.2	35.7
Deposits and wholesale funding									
Wholesale funding		R'm	3 694	3 336	5 078	(27)	(34)	6 206	7 543
Call savings		R'm	62 582	55 160	45 141	39	22	34 909	30 117
Fixed savings		R'm	36 183	32 337	26 224	38	23	22 915	17 922
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. The 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 excepted 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 as well as ECL 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) *Under IFRS 9, no future expected receivable is recognised post write-off. The R906 million receivable was run-down during the 2019 financial year and reduced bad debts recovered.*

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

(9) *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.*

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

About this report

Expand and diversify

Capitec simplifies banking. We aim to improve our clients' financial lives. We place unwavering focus on our fundamentals and work towards influencing our clients' financial behaviour positively. The future of banking in South Africa is dynamic and exciting. In our endeavour to put the client first we are constantly diversifying and expanding our business.

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

Who we are

Capitec Bank Holdings Limited (Capitec or the group) is listed on the JSE. It owns the operating subsidiary Capitec Bank Limited (Capitec Bank) that acquired Mercantile Bank Holdings Limited (Mercantile) on 7 November 2019.

Capitec Bank is the largest digital bank and the largest bank by active banking clients in South Africa. We focus on essential banking services and provide value for money, innovative transaction, saving, insurance and unsecured lending products to individuals. Through Mercantile we provide transaction, savings and unsecured lending products to small businesses.

Mercantile is a niche business and commercial bank servicing the needs of existing businesses. Its key differentiator is strong client relationships based on good service and an in-depth understanding of the needs of the South African entrepreneur.

Get in touch – we want to hear from you

If you would like to know more about us, please visit our website www.capitecbank.co.za. If you want to suggest refinements to this report, email us at enquiries@capitecbank.co.za. We do regular investor and results presentations and if you would like to know about these, or attend, send your contact details to enquiries@capitecbank.co.za.

About this report

The Capitec board has given the report their stamp of approval. The board is responsible for overseeing the integrity and completeness of this report, which covers the financial year from 1 March 2019 to 29 February 2020. The board members collectively applied their minds to the preparation and presentation of the information contained in this report. The board, the audit, the human resources and remuneration (REMCO) and the social and ethics committees considered the accuracy and completeness of this report and are satisfied with the reliability of all data and information.

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

There are tools to help you navigate. Because this report is integrated, you will find different levels of information that relate to the same subject in different sections of the report. We use page references as shortcuts to help you find those connections.

The glossary explains some of the words, expressions, acronyms and abbreviations. Our way of banking is simple; our report should be too. To write about banking and adhere to all the regulations and frameworks for reporting, we use words, expressions, acronyms and abbreviations that might not always be easy to understand. Our handy glossary in the appendices explains some of these.

Chairman's and CEO's report

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 while 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 on the next page.

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 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-sized 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 2 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.

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.

* *Indicates sections that were audited.*

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 1 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 Report on Corporate Governance™ for South Africa, 2016 (King IV)*. Basel disclosures, in terms of Regulation 43 of the Banks Act, Act 94 of 1990 (Banks Act), 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%).

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.

* *Indicates sections that were audited.*

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.

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
14 April 2020

CFO's report

Introduction

Growth delivered in a challenging economic environment

Headline earnings increased by 19% to R6 277 million (2019: R5 292 million) in a year when South Africa experienced 2 consecutive quarters of negative GDP growth.

Our Global One solution was the driving factor behind our growth. It is simple, affordable, accessible and personalised. This is why 2.4 million retail clients joined our brand during the last 12 months.

As part of our commitment to always put the client first we also focused on innovative digital technology and client experience. In March 2019, we announced our new fee structure which included a reduction in the pricing of digital transactions and our monthly administration fee. Our clients' behaviour shifted towards the use of digital channels resulting in significant savings to them.

Increased use of digital and self-service channels created additional capacity in our branches. We are building the banking branch of the future which is more than a place to deposit and withdraw cash. Branches deliver a personalised client experience to meet the more complex banking needs of clients. They provide the opportunity to interact with clients face-to-face in order to improve their financial lives.

Based on the guidance note issued by the Prudential Authority (PA) on 6 April 2020 the board decided not to declare a final dividend for the 2020 financial year. According to the notice the PA expects there to be no distribution of dividends on ordinary shares by any bank during 2020. This will enable the group to provide the necessary funding and assistance to our clients during the pandemic.

Events that shaped the 2020 financial year

- The SARB announced a decrease of 25 basis points in the repo rate to 6.5% per annum, effective 18 July 2019. On 16 January 2020, the repo rate was decreased by a further 25 basis points to 6.25%.
- Riaan Stassen, our chairman and 1 of the founders of Capitec Bank, retired on 31 May 2019. Santie Botha became the chairman of the board, effective 1 June 2019.
- A gross interim dividend of 755 cents (2018: 630 cents) per ordinary share was declared on 26 September 2019.
- During September 2019 we launched our financial education game, Livin' It Up. The purpose of the game is to teach our clients how to manage, protect and grow their money.
- Our new banking app was launched on 21 October 2019. The app is more user-friendly and includes new features such as Track Money, which allows clients to categorise and track their spending. In the same month we launched our new contactless card.
- We welcomed our 13 millionth client in October 2019. In January 2020 we added more than 290 000 clients to our active client base.
- On 7 November 2019, we acquired Mercantile Bank Holdings Limited. The acquisition provides the group with an opportunity to apply our fundamentals to change business banking in South Africa.
- S&P Global Ratings affirmed Capitec Bank's ratings on 18 December 2019 with a negative outlook. Our global long-term rating is the same as the sovereign rating, as well as those of other large South African banks.
- In February 2020, Brand Finance reported that Capitec is the strongest banking brand in South Africa and the third strongest in the world.
- We successfully implemented IFRS 16 *Leases*. For a detailed overview of the transition to IFRS 16, refer to note 2.18.1 of the annual financial statements.

Retail banking

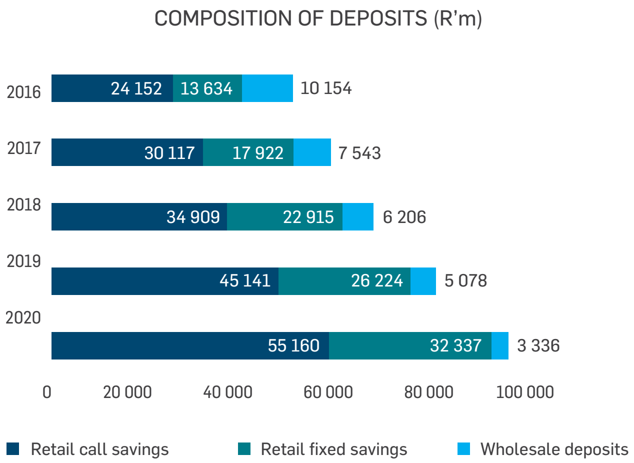
Save

Funding

Total retail deposits increased by 23% to R87.5 billion (2019: R71.4 billion). Retail call savings and retail fixed savings grew by 22% and 23%, respectively.

The growth in retail deposits is driven by a shift towards a savings culture. Our active client base increased by 21% to 13.8 million (2019: 11.4 million), a strong indication of trust in our brand. During the 2020 financial year we paid R4.7 billion (2019: R3.9 billion) in interest to our clients.

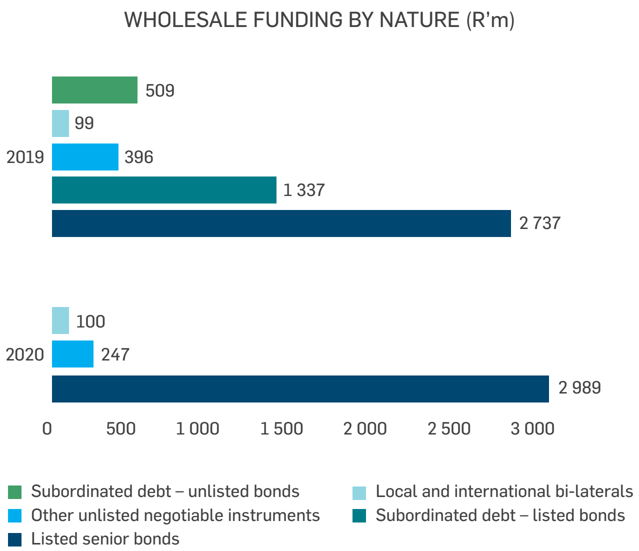
The average maturity of retail fixed funding was similar to the prior year at 15.53 months (2019: 16.9 months).



In 2020 our debt-to-equity ratio increased slightly to 3.8:1 (2019: 3.6:1). The growth in retail deposits and earnings enabled us to manage our wholesale funding (institutional bond and other funding) in accordance with our appetite. Wholesale funding declined by 34% to R3.3 billion.

The market still has appetite for wholesale funding and to maintain our presence in the debt capital market we auctioned R500 million in bonds in May 2019. We received bids in the amount of R2.8 billion.

The weighted average maturity of wholesale funding was 16.37 months at February 2020 (2019: 14.9 months).



Liquidity

Capitec's approach to liquidity risk management remained unchanged. The management of liquidity takes preference over the optimisation of profits. This conservative approach results in inherent compliance with the Basel 3 liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

The regulatory minimum LCR and NSFR is 100% and our ratios are well above the requirement. Our LCR is 2 203% (2019: 1 450%) and our NSFR is 197% (2019: 196%).

To reduce liquidity risk, retail call deposits are only allowed to fund cash flows shorter than 6 months. The funds surplus to operational requirements totalled R51.1 billion as at 29 February 2020 (2019: R44.3 billion). These funds are invested in low risk, liquid, interest-bearing instruments.

The weighted average remaining maturity of the investment portfolio at 29 February 2020 was 60 days (2019: 77 days). None of the longer-term investments have an original contractual maturity of longer than 1 year, which assists in the management of interest rate risk.

Insure

The growth of the funeral plan exceeded our expectations. Our success is attributable to the fact that our product is unique and affordable in a competitive market. Our ability to leverage our branches to provide a personalised experience ensures that our clients understand the funeral cover they purchase. On average more than 85% of our policies are issued in branch, however, our banking app is available to clients who do not wish to visit a branch. Policies issued via the banking app have lower premiums.

During the last 12 months we sold more than 1.1 million policies and earned income of R413 million.

The funeral income recognised on the income statement is received from a cell captive as a dividend. Funeral income is therefore net of tax and includes commission earned from the cell captive as well as expected profits, and experience profits after claims paid.

The current claims ratio is lower than the industry norm because the book is still maturing. We expect this trend to continue for the immediate future, however, the claims ratio is expected to increase as the funeral policy book matures.

Transact

Net transaction fee income grew by 14% to R7.4 billion (2019: R6.5 billion) despite decreases in digital transaction fees and our monthly administration fees at the beginning of the financial year. The net transaction income fee and funeral income to net income ratio is 47% (2019: 45%) and the net transaction income and funeral income to operating expenses ratio increased to 93% (2019: 87%).

We continue to focus on growing our quality banking clients, whom we define as those clients who have a stable inflow into their account and stable product usage over a consecutive 3 month period. Quality banking clients increased by 20% to 3.6 million in 2020.

Our aim is for our net transaction fee and funeral income to cover our operating expenses by 2022.

The driver behind the growth in net transaction fee income is transaction volumes. We recorded 4.5 billion transactions for the 12 month period ended 29 February 2020. This represents an increase of 31%.

Lower digital transaction fees precipitated a change in client behaviour with more than 3.3 million clients actively using the banking app on a monthly basis. The average number of transactions performed on a monthly basis was 27.2 million (2019: 16.1 million). USSD users increased by 19% to 4.9 million (2019: 4.1 million). The digital (banking app and USSD) transaction volume increased by more than 30% to 780.2 million (2019: 585.6 million). Internet transaction volume increased by 77% to 20.4 million (2019: 11.5 million).

The net transaction fee income from our digital channels increased by 12% to R809.0 million (2019: R721.7 million).

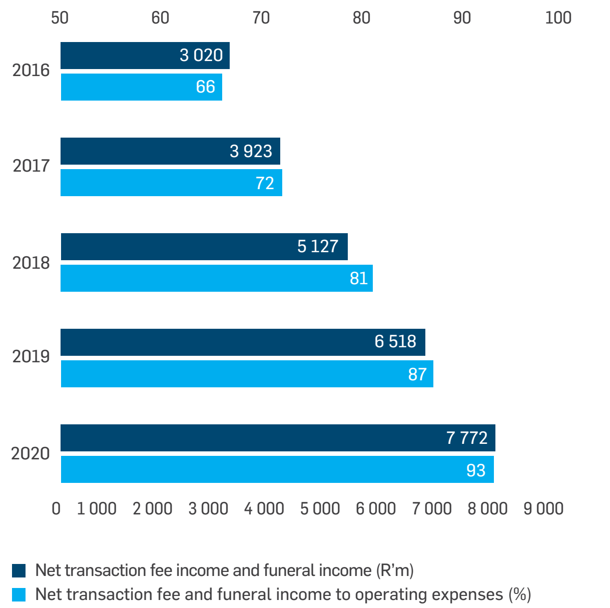
To remain accessible to clients throughout South Africa we increased our branch network. We currently have 852 branches across the country in convenient locations with 283 branches open for trading on Sundays. We also plan to open a further 12 branches in the new financial year.

Net transaction fee income from branch-related transactions increased by 3% to R1.43 billion (2019: R1.39 billion), however, transaction volumes decreased by 11%.

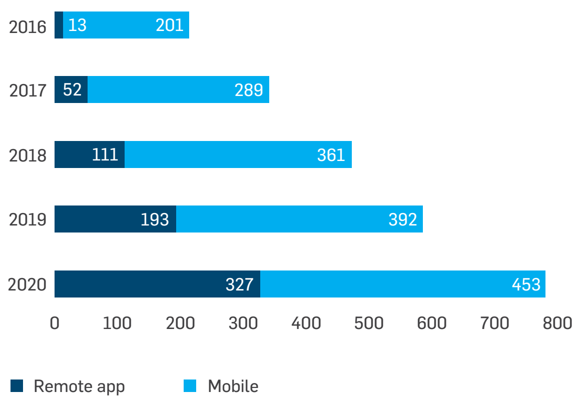
The decrease in branch-related volumes was offset by an increase of 34% in the use of self-service terminals and dual-note recyclers (DNRs). Net transaction fee income from these devices increased by 26% and 52%, respectively. In total net transaction fee income from the self-service terminal and DNR channels increased by 49% to R443.2 million (2019: R297.6 million).

We believe that our digital and self-service channels put our clients in control of their money and this is exactly why we will continue to innovate in this space.

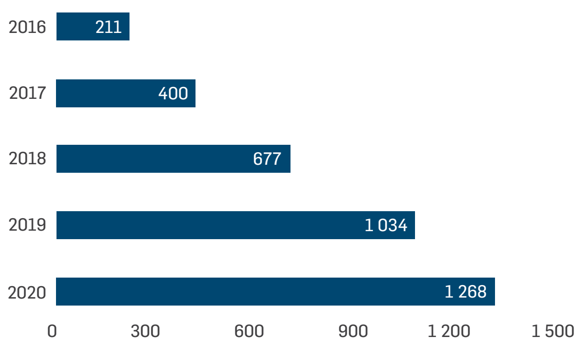
NET TRANSACTION FEE INCOME AND FUNERAL INCOME (R'm)



DIGITAL TRANSACTIONAL VOLUME ('m)



NET TRANSACTION FEE INCOME (R'm):
DIGITAL AND SELF-SERVICE CHANNELS



Credit

Credit market

The challenging economic environment and increased scrutiny of the unsecured lending market has emphasised the importance of ensuring that we grant credit for the right reasons and understand our clients' credit behaviour.

According to the NCR Consumer Credit Market Report (CCMR), the total number of applications for all types of credit increased by 2% to 45.9 million (2019: 44.9 million) for the 12 months ended 31 December 2019. Concurrently, the decline rate for applications increased to 57% (2018: 52%). Capitec's total term loan and credit card applications for this period grew by 6.2% to 4.2 million. Our decline rate for term loans and credit cards for the same period was 45% (2018: 45%).

The unsecured credit market in South Africa is significant and enhances the financial inclusion of consumers who would not qualify for secured credit. Unsecured lending must be managed responsibly by both the lenders and borrowers. The National Credit Regulator (NCR) Credit Bureau Monitor for the quarter ended December 2019 estimated that there are 25.2 million (2018: 25.9 million) credit-active consumers in South Africa.

The unsecured share of total credit granted during the 12 months ended 31 December 2019 increased to R126.8 billion. This comprises 23% of total credit granted. Unsecured credit transactions include all transactions where the lender does not have any security (other than credit facilities) as well as loans with terms of up to 6 months (short-term loans).

Total retail credit market (loans and advances for 12 months to 31 December 2019)

Credit type	2019 R'm	2018 R'm	2017 R'm	2016 R'm	2015 R'm
Secured credit	**170 579**	170 423	166 597	149 874	154 869
Mortgage	**162 318**	157 350	149 969	142 906	147 060
Unsecured	**117 174**	108 882	87 490	85 182	77 969
Credit facility	**85 251**	75 855	64 280	53 868	65 612
Development	**6 007**	5 982	14 659	13 078	7 383
Short term	**9 623**	13 070	12 897	12 660	15 031
Total	**550 952**	531 562	495 892	457 568	467 924

Unsecured and short-term credit market (granted by income group for the 12 months to 31 December 2019)

Gross income	2019 R'm	2018 R'm	2017 R'm	2016 R'm	2015 R'm
R0 – R5 500	**7 947**	6 590	8 607	11 857	12 832
R5 501 – R10 000	**15 464**	16 592	14 712	16 196	17 734
R10 001 – R15 000	**18 405**	19 947	17 546	17 723	17 904
>R15 000	**84 981**	78 823	59 522	52 066	44 530
Total	**126 797**	121 952	100 387	97 842	93 000

Total rand value of unsecured and short-term credit (granted by size of agreements for the 12 months to 31 December 2019)

	2019 R'm	2018 R'm	2017 R'm	2016 R'm	2015 R'm
R0 – R3 000	**3 999**	6 212	6 532	6 603	9 290
R3 001 – R5 000	**3 380**	4 505	4 352	4 583	6 142
R5 001 – R8 000	**5 948**	6 587	5 758	5 739	5 587
R8 001 – R10 000	**2 633**	2 822	2 694	3 017	2 677
≤R10 000	**15 960**	20 126	19 336	19 942	23 696
R10 001 – R15 000	**4 885**	5 428	4 571	5 012	4 710
>R15 001	**105 952**	96 398	76 480	72 888	64 594
Grand total	**126 797**	121 952	100 387	97 842	93 000

Short-term credit for the 12 month period ended 31 December 2019 amounted to R9.6 billion (31 December 2018: R13.1 billion). This represents a decrease of 26% in short-term credit granted which is indicative of the market being more risk averse. The rand value of unsecured credit granted increased by 8% to R117.2 billion (31 December 2018: R108.9 billion).

As a conservative lender in the market we encourage our clients to match their loan terms to the purpose for which they require the loan. As a responsible lender we encourage clients not to use credit for everyday expenses.

Loan granting strategy

We incorporate a comprehensive assessment of the client's behaviour, affordability and source of income. For the assessment, we use credit bureau data, bank statement and payslip information. We apply 2 parallel disposable income calculations. These comprise the NCA affordability assessment regulations calculation and our own disposable income calculation that maintains a conservative buffer. We then apply the more stringent of the 2. Branch employees 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 the loan that best suits him or her. We encourage clients to take up credit for short periods of time and for smaller amounts. This is done through a pricing-for-risk model that discounts the interest rate in instances where the clients selects a term that is shorter than the maximum for which they qualify.

When existing clients apply for further credit, we conduct a full credit assessment. The existing credit is consolidated into a new credit agreement. This is only available to clients if instalments are up-to-date on all Capitec loans and to clients who have a satisfactory credit behaviour score.

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

Acquisition and retention strategies are built on principles of the client credit behaviour (willingness to pay), affordability and source of income. Rehabilitation strategies are need-driven to assist clients based on their unique circumstances.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. These 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 going into arrears.

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.

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;
- 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 arrears instalments up-to-date; or assist clients that have cash flow difficulty but have good behaviour history, to reduce their instalments and extend the term of the credit agreement (i.e. reschedule). When there is a clear temporary interruption of income such as a strike or a client is on maternity leave, we may allow a reduced instalment for a short period (typically 3 months) with subsequent increased instalments, in order to assist the client through this period (i.e. variable reschedule).

We use system-based rules to limit instances where we allow rescheduling. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term for which the loan can be extended. We do not reschedule all loans that meet our criteria, as this depends on the individual circumstances of each client applying to reschedule.

We monitor the performance and cure rate of reschedules using a segmented approach to ensure that it remains within the bank's risk appetite. This process allows us to optimise collections and reduce clients' debt levels.

Loan sales

Term loan

Term loan sales increased by R4.5 billion to R29.3 billion (2019: R24.8 billion). Growth was experienced even though the number of loans granted decreased to 1.5 million (2019: 1.8 million). The number of loans is driven by our continued focus on clients that exhibit quality credit behaviour.

Loan sales do not include any rescheduled loans. Rescheduling is an amendment to an existing loan contract with no credit granted. No initiation fees are charged on rescheduled loans. The consolidation of loans is also excluded. Loan sales represent only new credit to the market.

The 13 – 36 month loan category showed the most significant increase in sales, increasing by 30% to R9.8 billion (2019: R7.6 billion). The increase is driven by clients taking shorter terms and/or lower amounts than the maximum offered by Capitec. Lower interest rates on these loans decrease the total cost of credit to the client.

We use complex analytics and innovative technology in order to understand our clients better. This enabled us to grow 61 – 84 loan sales by 21% while remaining within our risk appetite.

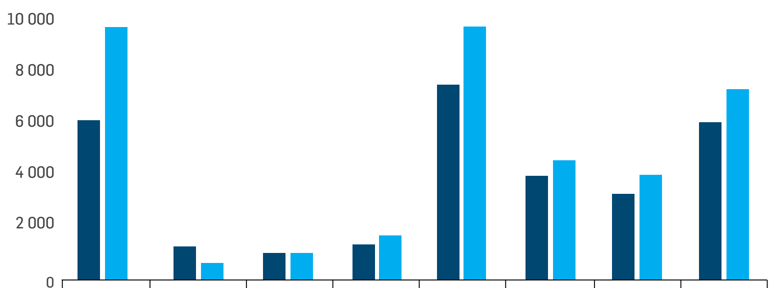
Credit card

Credit card disbursements increased by 58% to R9.8 billion (2019: R6.2 billion). The number of active credit cards is 664 690 of which 566 177 are performing (balances 0 to 90 days).

In each month that a credit card is utilised, 1 loan is counted towards the number of disbursements. In the current year the number of disbursements increased by 1.3 million to 4.5 million. The average disbursement increased from R1 974 to R2 195.

As at 29 February 2020, the gross credit card book was R5.8 billion. As at 31 December 2019 the book comprised approximately 4.4% of the total South African credit card market.

LOAN SALES BY PRODUCT (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
2019	6 193	1 300	1 045	1 379	7 567	4 039	3 334	6 111	30 968
2020	9 799	651	1 037	1 725	9 815	4 625	4 066	7 398	39 116
Change (R'm)	3 606	(649)	(8)	346	2 248	586	732	1 287	8 148
Change (%)	58	(50)	(1)	25	30	15	22	21	26

Lending and insurance income

Total lending and insurance income

	2020 R'm	2019 R'm	Change R'm	Change %
Interest income on loans and advances to clients	12 544	11 935	609	5
Loan origination fees	651	788	(137)	(17)
Monthly service fees	976	931	45	5
Net insurance income*	981	795	186	23
Total lending and insurance income	15 152	14 449	703	5
Loan fee expense**	(90)	(219)	129	(60)
Total net lending and insurance income	15 062	14 230	832	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 that are still on the credit book.*

Total lending and insurance income increased by 5% from R14 449 million to R15 152 million. Interest income on loans and advances increased by R609 million to R12 544 million.

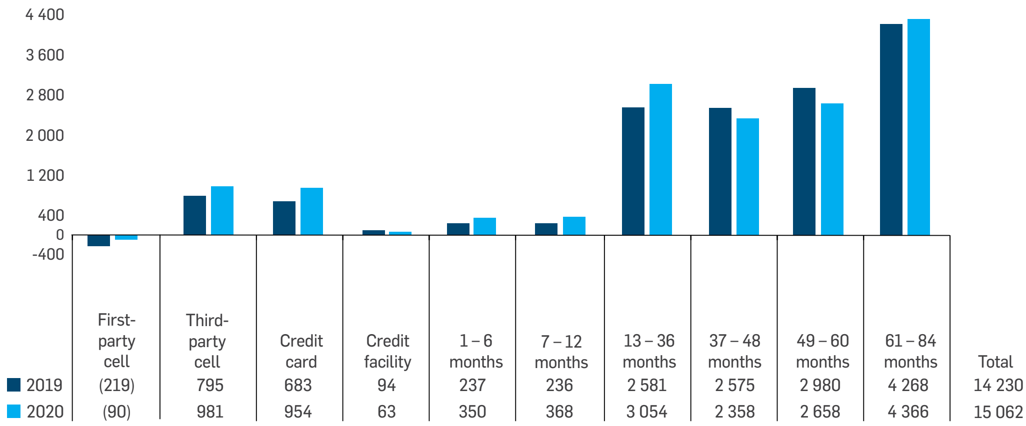
Under IFRS 9, interest income is recognised on a net basis for all loans classified as stage 3. The reduction in interest income amounted to R1 526 (2019: R1 073 million).

Loan origination fees decreased by 17% to R651 million for the year. The decrease is driven by the fact that we no longer charge origination fees on loan consolidations (both internal and external).

Net insurance income increased by 23% to R981 million (2019: R795 million). The increase is largely attributable to the growth in credit card clients from 99 769 to 163 952 and the consequent increase in credit card book from R3.6 billion to R5.8 billion.

The first-party book relates to all retail loans with original terms of 12 months or longer issued prior to the National Credit Act (NCA) amendments on 6 May 2016. We insure this book against retrenchment for non-government employees, and death events for all clients. The book decreased by 54% from R14.5 billion to R6.6 billion. This resulted in a decrease of 60% in the loan fee expense.

TOTAL LENDING AND INSURANCE INCOME
(EXCLUDING INVESTMENT INCOME) (R'm)



Credit book

Analysis of net loans and advances by status – Retail banking

R'm	Stage 1	Stage 2		Stage 3				
	Up-to-date	Up-to-date loans and advances with SICR and applied for debt review >6 months	Up to 1 month in arrears	2 and 3 months in arrears	Re-scheduled from up-to-date not yet rehabilitated	Re-scheduled from arrears not yet rehabilitated	More than 3 months in arrears, legal statuses and applied for debt review <6 months[1]	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%**
% of total gross loans and advances	**73.8%**	**6.8%**	**1.8%**	**2.4%**	**1.7%**	**2.2%**	**11.2%**	

R'm	Stage 1	Stage 2		Stage 3				
	Up-to-date	Up-to-date loans and advances with SICR and applied for debt review >6 months	Up to 1 month in arrears	2 and 3 months in arrears	Re-scheduled from up-to-date not yet rehabilitated	Re-scheduled from arrears not yet rehabilitated	More than 3 months in arrears, legal statuses and applied for debt review <6 months[1]	Total
Balance at 29 February 2019								
Gross loans and advances	41 587	3 765	1 087	1 483	901	1 354	5 718	55 895
Cumulative provision	(2 671)	(771)	(582)	(1 192)	(389)	(616)	(5 159)	11 380
Net loans and advances	38 916	2 994	505	291	512	738	559	44 515
Provision (%)	6.4%	20.5%	53.5%	80.4%	43.2%	45.5%	90.2%	20.4%
% of total gross loans and advances	74.4%	6.7%	1.9%	2.7%	1.7%	2.4%	10.2%	

[1] *Includes loans that are currently up to 1 month in arrears that were previously rescheduled but have not rehabilitated.*

The gross retail loan book grew by R9.5 billion from R55.9 billion to R65.4 billion on the back of increased loan sales. We use sophisticated data analytics and innovative technology, like artificial intelligence to understand our clients better and improve the quality of the loan book. This allowed us to grow the loan book while remaining within our risk appetite.

As at February 2020 the weighted average outstanding term of the retail loan book was 41 months (2019: 40 months).

The up-to-date gross loans and advances (including loans with SICR and rescheduled loans not yet rehabilitated) book grew by R7.8 billion to R55.4 billion (2019: R47.6 million) and currently represents 85% (2019: 85%) of the total gross book.

The SICR balances increased by 18% to R4.4 billion (2019: R3.8 million). The coverage ratio on this segment of the book increased to 23.9% (2019: 20.5%) driven by a more conservative approach to determining SICR.

Total balances rescheduled (up-to-date and arrears) increased by 15% for the year and is in line with book growth. At year-end R2.8 billion in rehabilitated accounts was included in the up-to-date book (2019: R2.7 billion). The up-to-date loan book relating to accounts rescheduled less than 6 months ago (not yet rehabilitated) grew by 15% from R2.3 billion to R2.6 billion in the current year. Rescheduled clients performed within expectation and the term extensions of rescheduled loans also remained within risk appetite.

Growth in rescheduling is not unexpected given the current economic environment. The financial health of our clients is a priority and we assist clients who are unable to repay debt due to unforeseen circumstances by rescheduling. This creates the opportunity for clients to return to a creditworthy position.

A higher provision is held on rescheduled loans because these loans inherently carry more risk than other loans. The weighted average coverage ratio on rescheduled balances is 65.8% compared to the total coverage ratio of 20.5% on total loan book.

Loans and advances up to 3 months in arrears increased by 6% to R2.7 billion (2019: R2.6 billion). The balance contains a larger proportion of loans that are 1 month in arrears than in the comparative period. These balances are provided for at a lower rate hence the coverage provision relating to these loans decreasing by 4%.

Loans and advances more than 3 months in arrears, with legal statuses and where clients applied for debt review within the last 6 months increased by 29% to R7.4 billion (2019: R5.7 billion). A new write-off policy, in terms of IFRS 9, was implemented in 2019. Loans remain on book until there is no longer a reasonable expectation of recovering more than 5% of the balance at point of default. This means that loans and advances remain on book longer as we previously wrote off all loans that were more than 3 months in arrears.

The loans and advances in this category are provided for at 85.0% (28 February 2019: 90.2%). The coverage ratio decreased due to there being a larger portion of debt review clients included in this segment. Debt review loan balances contributed to two-thirds of the growth in the default book. We recover more on debt review clients and therefore hold a lower provision on this portion of the book.

Net credit impairment charge

	2020 R'm	2019 R'm	Change R'm	% Change
Bad debts written off	5 106	1 268	3 838	>100
Movement in provision for credit impairment	517	3 649	(3 132)	(86)
Gross credit impairment charge	5 623	4 917	706	14
Bad debts recovered	(1 263)	(467)	(796)	>100
Recoveries	(1 263)	(1 373)	110	(8)
Expected recoveries realised	–	906	(906)	
Net credit impairment charge*	4 360	4 450	(90)	(2)

* *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing bad debt written off by R1 526 million for this year (2019: R1 073 million).*

The gross credit impairment charge increased by 14% from R4.9 billion to R5.6 billion. In total the net credit impairment charge to average gross loans and advances (credit loss ratio) decreased to 7.2% (2019: 8.6%). This reflects the agility with which we are able to adjust credit granting criteria in changing circumstances.

It is now 24 months since the implementation of the new write-off policy and loans have moved out of the default and legal books into write-off, increasing the bad debts written off compared to the prior year, when the policy had previously only been in place for 12 months. Bad debts written off amounted to R5.1 billion (2019: R1.3 billion). Concurrently, the movement in the credit impairment provision decreased to R0.5 billion (2019: R3.6 billion) as the default and legal book stabilised.

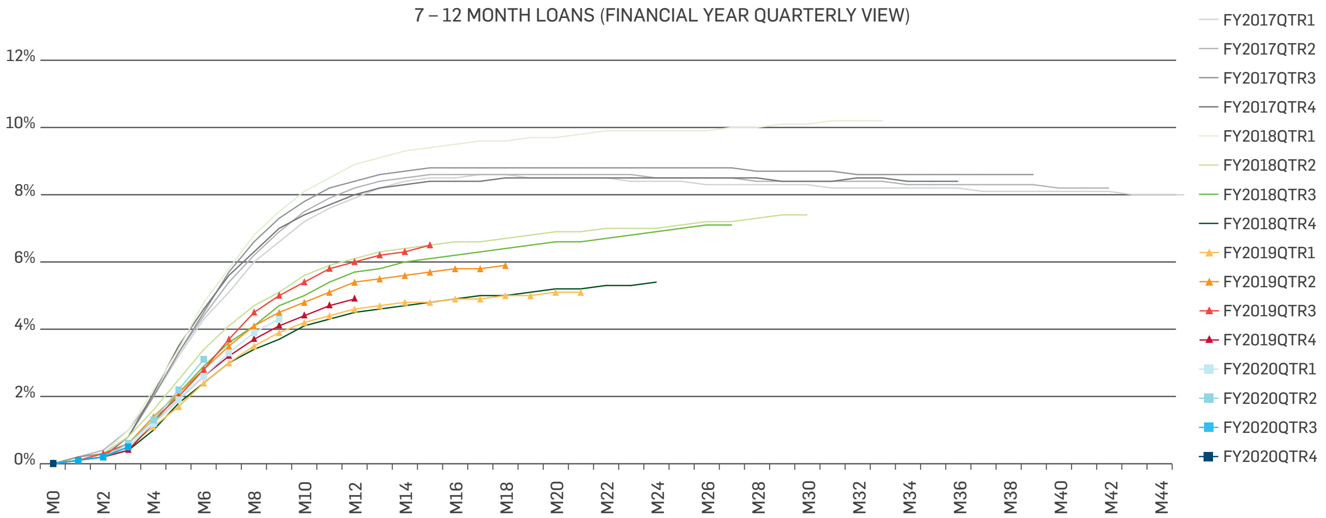
In conjunction with the increase in bad debt recoveries, the net credit impairment charge decreased by 2%. Bad debts recovered increased from R467 million in the prior year to R1.3 billion. The prior year figure was net of the R906 million in expected recoveries held on book as at 1 March 2019. These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

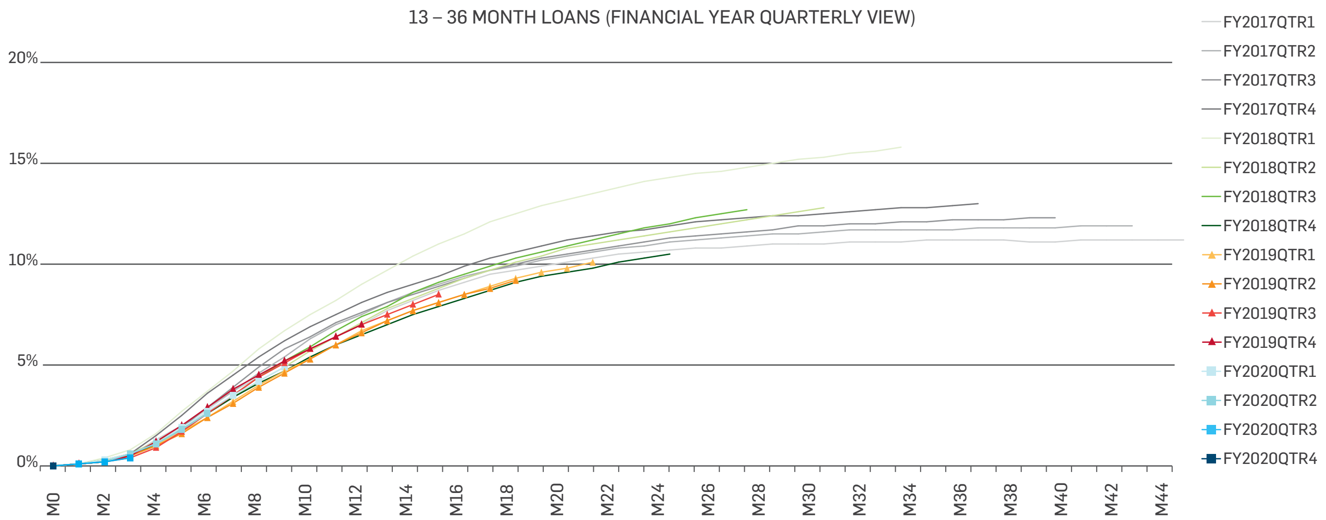
Vintage graphs

We grant credit on risk-based pricing that includes the probability that a client may default on payments. Default is defined as the client being more than 90 days in arrears, handed over to external debt collectors, under debt review or with a legal status.

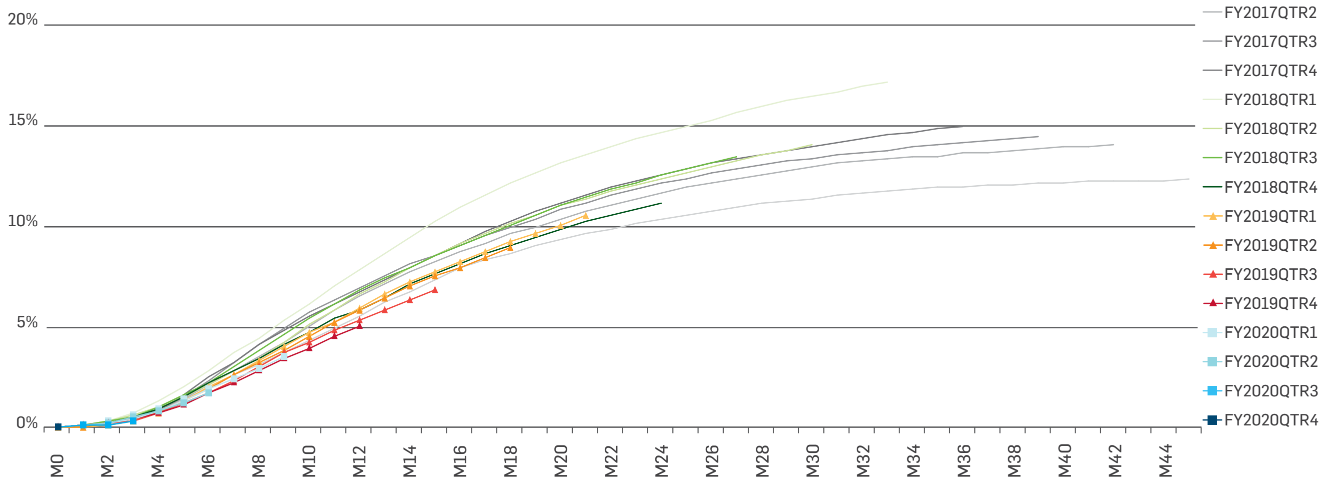
The vintage graphs below express the balance at risk at the time a loan goes into arrears as a percentage of the total original instalments (capital, interest, initiation fees, monthly fees and insurance) expected for loans granted in a given quarter. The vintage graphs reflect our expectation of clients defaulting on payments and our ability to appropriately adapt pricing in specific loan categories to match our granting strategy and risk appetite.

Vintage graphs are monitored monthly against price risk targets which ensures that our risk appetite is not exceeded.

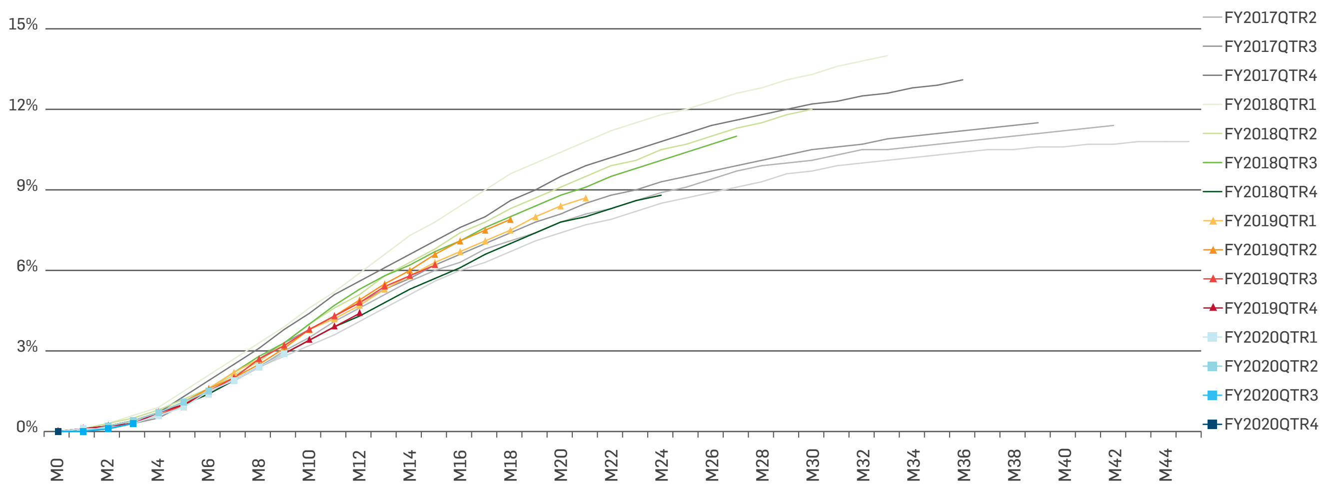




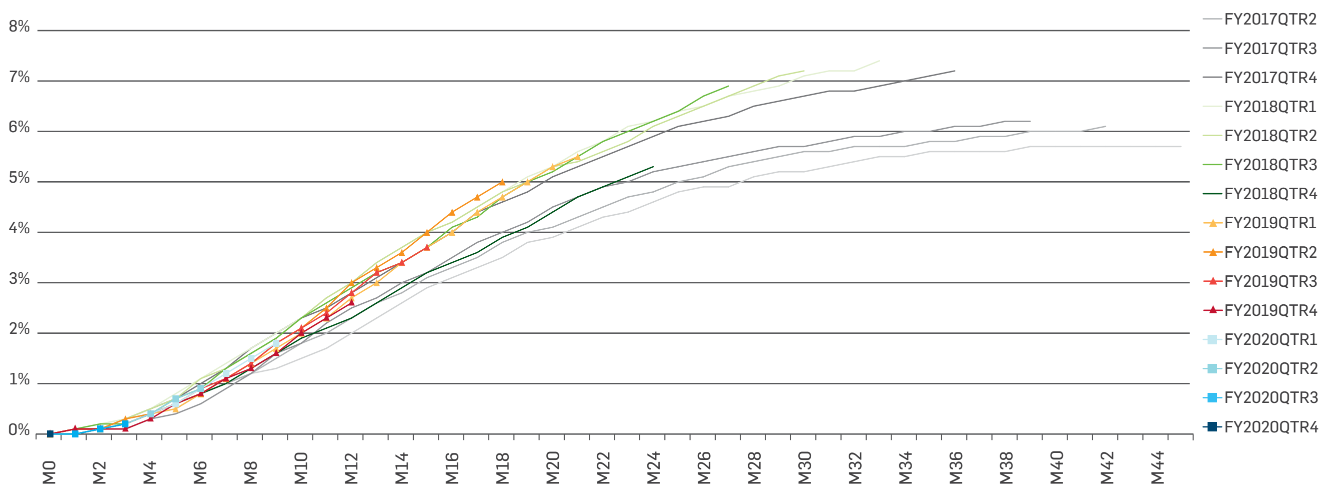
37 – 48 MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



49 – 60 MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



61 – 84 MONTH LOANS (FINANCIAL YEAR QUARTERLY VIEW)



Cost structure

Operating expenses increased by R898 million from R7.5 billion to R8.4 billion. The increase is mainly driven by an increase in the number of employees to 14 029 (2019: 13 774). Growth in employee numbers resulted mainly from growth in the IT and credit divisions. Increased use of data analytics and technology to understand clients better, and innovation in the digital channel necessitated an increase in highly skilled employees in these divisions.

The cost-to-income ratio for retail banking increased from 39% to 40%. The cost-to-income ratio is impacted by interest earned on stage 3 loans and advances, which is recognised on the net loan balance after the deduction of provision. As a result net income reduced by R1.5 billion (2019: R1.1 billion).

Our new head office

On 17 February 2020, after 338 work-days and more than 1 500 000 man-hours, we received the keys to our new head office building. Employees began moving to the new building during March 2020.

Our new head office campus is a world class working space with desk space for more than 1 900 employees. It includes 56 meeting rooms with the latest technology. The design of the building included several energy and water saving features which are detailed in the environmental report on page 132.

The new building will maximise opportunities for collaboration between divisions.

Taxation

The effective tax rate for retail banking decreased to 22.4% (2019:25.2%).

Insurance income is received from 2 cell captives as a dividend. The amount is therefore net of tax. This decreased the retail banking tax charge by R402 million (2019: R237 million).

Business banking

Mercantile group

On 7 November 2019, the group acquired control of Mercantile. Mercantile's purpose is to grow entrepreneurs and provide business banking services to existing small and medium enterprises. The acquisition provides the group with a share in business banking.

For the immediate period the 2 banks will run independently with retail clients being served in Capitec branches and business banking clients in Mercantile business centres.

For the 4 months during which Mercantile has been part of the Capitec group, total lending and investment income was R479 million, with a net profit of R3 million. Since its acquisition, Mercantile has adopted Capitec's conservative credit loss provision philosophy leading to a net credit impairment charge of R114 million for the 4 months. During February 2020 Mercantile settled wholesale funding in the amount of R874 million and incurred settlement fees of R19.0 million after tax.

At the end of February 2020 the gross loan book amounted to R10.3 billion with an expected credit loss provision of R315 million. The net credit impairment charge to average gross loans and advances 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.

Our acquisition of Mercantile will create exciting opportunities for both Capitec and Mercantile employees. Our need for skilled people will increase significantly.

Mercantile provides the group with the opportunity to offer a business banking solution based on the same fundamentals that transformed the retail banking sector – simplicity, affordability, transparency and providing personalised services.

Group

Capital

The group is well capitalised with a capital adequacy ratio (CAR) of 30.5% (2019: 33.9%) and a core equity ratio (CET1) of 29.5% (2019: 32.8%). The group continues to meet all prudential requirements.

The IFRS 9 transition after applying the phase-in resulted in a 0.4% decrease in the CAR. The right-of-use asset relating to the implementation of IFRS 16 resulted in a decrease of 1.2% in the CAR.

Both Capitec and Mercantile apply the standardised approach to calculate capital adequacy. The acquisition of Mercantile had a significant impact on the CAR, as qualifying capital is measured against the combined risk weighted assets of Capitec and Mercantile. The inclusion of Mercantile's risk weighted asset resulted in a decrease of 5.5% in the group CAR.

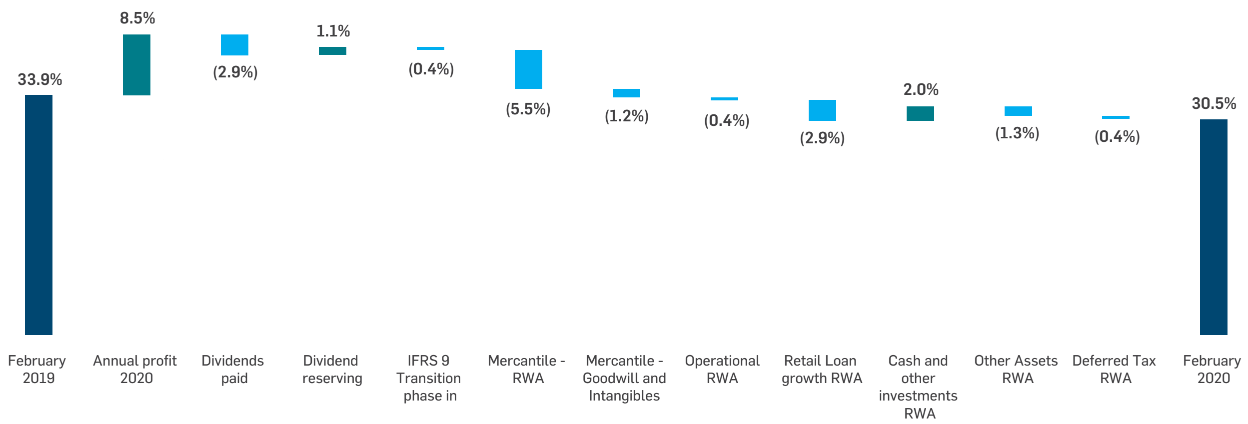
Credit ratings

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 is zaAA and the short-term rating is zaA-1+. Our global 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 assets levels to increase. This will be managed in the future by allocation 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.

The graph below illustrates the factors that impacted the group CAR.

YTD CHANGE IN CAR%



Regulation

The regulatory environment changes constantly. We proactively contribute to and manage our regulatory environment by taking care of the interest of all our stakeholder and clients.

The table below summarises the status of current regulatory developments:

Regulator	Status
Prudential Authority (PA)	Guidance Note 4, which was issued on 6 April 2020, provided recommendations to banks regarding the distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers in light of COVID-19. The PA expects that no distribution of dividends on ordinary shares should take place during 2020, in order for banks to increase their current capital positions in order to be able to absorb possible future losses. The PA further indicated that they expect the boards of directors of banks to take appropriate action in respect of any distributions or dividends that may already have been declared by banks. Based on the above recommendations Capitec group will not declare a final ordinary dividend nor will it pay out cash bonuses to its executive team. In addition, there will be no increase in director fees for the non-executive directors.
	The PA issued *Directive 2: Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic* on 6 April 2020. The PA implemented measures to reduce the minimum requirement of capital and reserve funds to be maintained by banks, in order to provide temporary capital relief to enable banks to counter economic risks to the financial system as a whole, and to individual banks. The Pillar 2A capital requirement is maintained for systemic risk and is to be held over and above the relevant minimum internationally agreed requirement specified in the Basel III capital framework. The PA believes that the temporary relaxation of the Pillar 2A capital requirement (which amounts to 1%) would assist the banking sector to continue lending to the real economy. It is the PA's intention to reinstate the minimum Pillar 2A capital requirement following the COVID-19 stress period. In addition to relaxing the Pillar 2A capital requirement, banks will also be allowed to draw down against the capital conservation buffer in the upcoming period after consulting the PA. Our current capital adequacy ratio exceeds the minimum requirements set by the PA.
	The PA issued *Directive 1: Liquidity Coverage Ratio (LCR)* on 31 March 2020. The PA lowered the LCR requirements as of 1 April 2020 from 100% to 80%. Due to the current financial market turmoil, market liquidity has decreased, and banks have been under increased pressure to comply with the currently prescribed LCR requirements. Our current liquidity coverage ratio exceeds the minimum requirement of 80%.

Regulator	Status
Prudential Authority (PA) ***(continued)***	The PA issued *Directive 3: Matters related to the treatment of restructured credit exposures due to the COVID-19 pandemic* on 6 April 2020. The requirements specified in Directive 7 of 2015 were amended to provide temporary relief on the minimum capital requirements. Under Directive 7 of 2015, where a loan is not in arrears at the time of restructure and the terms and conditions were changed in order to prevent the obligor from going into arrears, it should be regarded as an indication of distress of the obligor and the restructure should be classified as a distressed restructure (stage 3 exposure). Under Directive 3 of 2020, banks are required to determine whether the restricted loan was up-to-date as at 29 February 2020 and through its assessment process determine whether the loan is expected to remain in an up-to-date status subsequent to the relief period, all other factors remaining constant. These restructured loans will be classified as COVID-19 related restructures. On the standardised approach the same risk weight assigned to the loan before the said restructure may be applied to the COVID-19 related restructured loan, as if these loans are not considered to be distressed. Loans that are not reasonably expected to remain in good standing or those loans that despite the relief measures, still exhibit signs of distress, must be treated in terms of the existing requirements of Directive 7 of 2015.
South African Reserve Bank (SARB)	The Authenticated Collections/DebiCheck system was implemented on 1 August 2018. The system provides a more secure debit order collection mechanism to replace the existing AEDO and NAEDO systems. The business and consumer adoption of the DebiCheck system is slower than expected. The Reserve Bank Directive stated that the system must be fully implemented by 31 October 2019, it further directed that from 1 May 2020 no entity may capture new NAEDO debit orders for collection. Capitec Bank completed its implementation and is on track to convert all its branches and support departments to operate on DebiCheck before 1 May 2020. The DebiCheck system is a world first in obtaining upfront authentication of a debit order mandate. Despite the benefits that DebiCheck brings to consumers, the rate of authentication for new debit orders by the consumers is below 30%.
	Capitec was designated as a systemically important financial institution (SIFI) by the SARB during August 2019. Current expectations are that banks being classified as SIFI's will be required to issue First Loss Absorbing Capital (FLAC) instruments in the future as required by the Recovery and Resolution Planning Framework. At this stage the level of FLAC instruments to be issued, and the impact of excess regulatory capital above the minimum requirement, on FLAC requirements has not yet been finalised.
	Imminent introduction of the Deposit Insurance Scheme (DIS), a wholly owned subsidiary of the SARB, which will require banks to contribute to a fund based on the level of covered deposits, up to R100 000 per client deposit.
Department of Trade and Industry (DTI) and National Credit Regulator (NCR)	The National Credit Amendment Act 7 of 2019 was promulgated. The effective date is expected to follow finalisation of the regulations required to give effect to its provisions. The amendments will introduce the possibility for over-indebted consumers with an income of no more than R7 500 and who have unsecured debt of no more than R50 000 to apply for debt intervention. Under debt intervention, a consumer's debt obligations may be suspended for up to 24 months or may be expunged. A further amendment will empower the courts to enforce reductions in interest and fees for consumers under debt review or debt intervention. The amendment act will also make credit life insurance compulsory on loans where the loan term exceeds 6 months and the principal debt does not exceed R50 000. The NCR issued Circular No 15 of 2016 (Circular) which states "where the consumer is unable to pay an initiation fee upfront on an unsecured or short-term loan, the credit provider must reflect the initiation fee separately on the credit agreement and not charge interest on the initiation fee". The implication of the Circular is that credit providers that defer the payment of the initiation fee in respect of an unsecured credit transaction and/or a short-term credit transaction are not permitted to charge interest on the initiation fee. The MFSA applied to the High Court for a declaratory order regarding the interpretation of the National Credit Act, 34 of 2005. The Banking Association South Africa (BASA) joined the litigation as an interested party.

The current COVID-19 pandemic will have a significant impact on the South African economy over the next few years. As a financial institution and responsible lender we will focus on our fundamentals and support our clients through these difficult times.

Andre du Plessis
Chief Financial Officer

The Capitec Way

Our simplified banking solution is what existing and new clients want. That is why our client numbers keep growing.

We help our clients improve their financial lives, giving them more control of their money at lower cost. And we keep it personal and personalised for each client.

This is the **Capitec Way** of **banking and behaving.**

why we exist

pg 26

To enable clients to improve their financial lives.

Our contribution

pg 38

Sustainable Development Goals (SDG)

Our behaviour

pg 27

- **Client First**
- **Energy**
- **Ownership**

Employee Value Proposition (EVP)

pg 44

Promotes a **growth mindset** that supports our behaviour.

- Organisation
- Benefits
- Growth
- People

Being my best helps clients to simplify their banking so they can live better.

being my best

Simplicity delivered through a unique client experience, enables our clients to improve their financial lives

how
we behave

pg 27

What we say and do in the market is lived and driven internally.

what
we offer

pg 30

By using innovation and technology we offer clients banking with simplified processes, reduced costs and increased accessibility.

Our fundamentals

pg 28

- Simplicity
- Affordability
- Accessibility
- Personalised experience

Simplified solution

pg 30

Global One, our one money management solution, offers a range of transacting options, savings plans, credit plans and insurance cover that clients can personalise.

GlobalOne Money Management

Live Better platforms

pg 50

- Financial Education
- Benefits
- Talks (Experiences)

live better

transact

4.5 billion
transactions for 2020

save

R4.7 billion
paid to clients in interest

insure

1.1 million
Capitec Funeral Plan policies issued this year

credit

12.9%
lowest unsecured lending rate

Why we exist

What inspires us

At Capitec our purpose is to improve the financial lives of our clients. By striving for this goal we improve the lives of all South Africans and make a meaningful contribution to the growth and prosperity of our country. We guide and assist our clients to interact with the world financially as it evolves.

We believe in making banking simpler, more affordable, accessible and personalised. We achieve this by being transparent and by listening to our clients. We understand that while banking is not everyone's first priority, it is a necessity.

Our client numbers show that the solutions we provide are relevant to people's needs.

Our market opportunity

People make financial choices daily. If they are not aware of all their options, they might make decisions that bring short-term relief but will not help them to live better financially in the long term. We believe that we help people see the bigger picture and make better choices.

We welcomed 2.4 million new clients this year. 51% of our clients are younger than 35 years old.

How we do business

Our core values drive our behaviour

Capitec and its employees are committed to ethical behaviour. We believe in putting clients first, working with energy and taking ownership.

We behave in a way that builds trust and long-term relationships, externally with clients, and internally with colleagues. The values that govern the behaviour of our employees in their interactions are:

c

Client First

- Greet with a smile and stand to show respect
- Listen, understand and connect
- Always have respect

e

Energy

- Enjoy what you do
- Be enthusiastic and positive
- Be quick and efficient

o

Ownership

- Take responsibility
- Take initiative
- Care about the outcome

Our corporate values are manifested in a range of policies that specify the ethical conduct expected from all employees. We frequently communicate these policies as well as our commitment to legal and regulatory compliance to our employees.

The social and ethics committee monitors and reviews the relevant policies regularly to ensure that an ethical culture is effectively embedded. The board remains ultimately responsible for creating an ethical culture at Capitec.

> "We want to understand the friction that a client has in his/her life when it comes to financial management and have the ability to take that friction away."
>
> – **Gerrie Fourie, CEO**

We promote human rights

Our human rights statement, approved by the social and ethics committee, confirms our approach to respecting and protecting human rights.

We recognise that our business contributes to economic welfare and therefore plays a role in human progress. Sound human rights practices deliver commercial rewards for all stakeholders over the long term. Companies that apply human rights policies are better prepared to prevent human rights abuses and effectively deal with transgressions.

Below is an extract from Capitec's human rights statement:

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

Our unique value proposition

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

- Simplicity
- Affordability
- Accessibility
- Personalised experience

They guide us in applying our commitment to responsible banking. Banking is complex, but we design for simplicity and transparency in the eyes of the client and always adhere to our fundamentals.

Simplicity

The easier it is to access their funds and perform banking activities the better clients can control their financial lives. Banking should not be complicated.

Simplicity the Capitec way:

- Tools that make things quick and easy – anytime, anywhere
- 1 offering for all clients no matter what their income or profile
- Transparent pricing: there are only 5 key, rounded and fixed price points
- Explaining and using simple terms in contracts, in our branches and on screens

We use technology to engage with and service our clients. Back-end systems and processes measure detail to make even small things that matter, better. This ensures a product that is differentiated, transparent, easy for our consultants to deliver and easy for our clients to use.

Our marketing campaign in the past year focused on simplicity. We talked to people about a simpler way to bank.

Capitec removes complexity from banking with technology that cuts costs and puts the value back in clients' pockets.

Affordability

Capitec has a client relationship with a third of the banked population of South Africa. Therefore, we have a responsibility to create and operate a business model that drives competitive affordability.

We want our clients to get value for money. We run a low-cost business that is able to drive down pricing for transactions and credit. When we are more efficient, clients benefit from lower fees, making banking more affordable.

We encourage clients to use more affordable cashless, self-service and automated banking options. With zero data fees and lower transaction costs, using our app is the most affordable way to transact.

We encourage clients to think about affordability when taking out loans. During the year, clients opted to take out loan amounts lower than what they qualified for, or a shorter loan term. This resulted in clients saving on interest payments.

New competition in the industry is not going to change our offer of value for money. We put the client first. This year we reduced electronic banking fees, the cost of debit orders, electronic fund transfers and cash withdrawal fees at tills. We changed our ATM pricing so it costs clients less to withdraw amounts under R1 000.

Capitec pioneered making immediate payments accessible and affordable for everyday use and leads the industry in this regard. R8 is all clients pay to make an immediate payment, and the money is available instantly. This is the lowest immediate payment fee in South Africa, which is why Capitec clients bank better for less.

We enhanced the Capitec Live Better benefits. These benefits are available as soon as a client opens a Global One account. Benefits include discounts on subscriptions, online courses and travel options.

Accessibility

We want our clients to be able to access our Global One solution from anywhere, at any time and in any way, to place them in control of their banking. Clients can access our services on the app, through electronic channels, our client care centre or they can visit a branch if they want direct personal interaction.

We have 852 branches and continue to open new branches. Our branches are easy to access, 283 are open 7 days a week and all have longer trading hours than other banks. They are in malls and shopping centres close to the anchor retail tenant and other convenient locations, instead of in banking halls.

We changed the format of our branches to have more work stations and self-service terminals rather than cash counters. Branches are changing from places where cash is drawn and deposited to sales and service centres. Clients can draw cash at our 2 380 ATMs or at approved retail outlets. This means that there are more consultants in a branch to help them with any unique and specific banking needs.

Even though Capitec is South Africa's biggest digital bank, offering internet banking via a web browser and smartphone app banking, we have an omni-channel approach. We still have more clients visiting branches.

Personalised experience

Our role as the banking partner to our clients means that we develop a personal relationship with each client to understand their needs and goals so that we can help achieve them.

We design the banking experience with client convenience and excellent service in mind. Our immediate focus is to build a relationship with each client and assist them in taking control of their financial decisions.

Our app personalises information for clients – they can customise their accounts, views, favourites and shortcuts.

In a branch, clients experience personal, face-to-face interaction built on conversations. Our branch managers operate at the front of the branch: they are visible and accessible. As the champions of client service, they personally welcome new clients when a Global One account is opened.

Clients are served seated so that they and the consultant can both engage with the information on a computer screen. This empowers clients to choose the personalised options they want and to feel in control of the process.

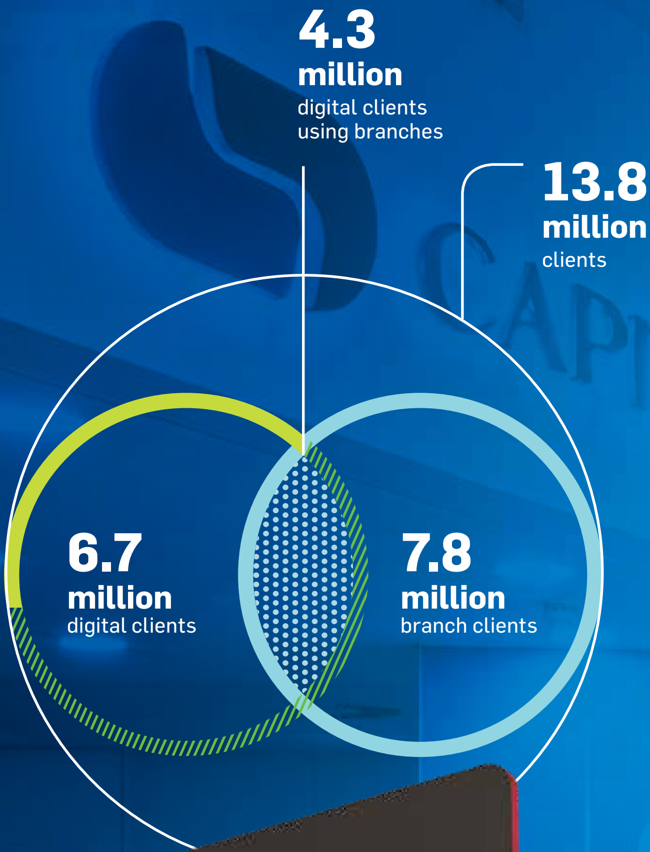
We use digital tools to measure a client's experience from the moment they enter a branch to the time they leave the branch. This helps us improve the client's overall experience of our service.

Our consultants are recruited from the areas in which their branch operates. This means that they are familiar with their community and can serve clients in their home language.

Capitec also applies machine learning to create a personalised experience and better outcomes for our clients by understanding them and our processes better.

What we offer clients

We expand and diversify our offering. 13.8 million people use Global One as a solution for money management. They structure the solution according to their individual preferences.



4.5 billion

transactions for the year 2020

transact

Our clients use Global One to transact globally at any time.

Capitec's transaction fees are among the lowest in the market.

Transact offering:

- Card
- Online shopping
- Internet banking
- Mobile banking application
- USSD mobile banking
- Merchant solutions
- Employer salary transfer facility

New this year

- Immediate payments at R8.
- A send-cash service, where a client can send money to someone who does not have a bank account. The recipient can quickly and conveniently collect the money at approved retail outlets.
- Vertical credit and debit cards with tap-and-go functionality.
- Debit order authentication as part of DebiCheck which allows clients to confirm a debit order electronically on a once-off basis before it is processed. Authentication can be either via a card and PIN, through a branch visit for personal assistance, on our app, via USSD or our call centre. This gives our clients the freedom to select the option that is most convenient to ensure their peace of mind.
- App with greater levels of personalisation.

Achievements this year

- Number of electronic app transactions was more than the previous 5 years combined
- Number of transactions a second 5 500
- We signed up an average of 200 000 new banking clients per month
- Transaction volumes on the banking app increased by 69%, and on self-service terminals by 27%

8.1%

share of retail deposit market in South Africa, an increase of 1%

save

We want to make it easy for clients to save and plan for their financial futures.

We encourage savings by paying clients interest on their savings from day 1. Our interest rates are high: from 3.5% to 9.0%, which amounted to R4.7 billion in interest earned by our clients in the past 12 months.

Saving offering:

- Transaction savings account: serves as the client's main account
- Flexible savings account: clients can choose the amount and the term
- Fixed-term savings account: this can be single or multiple deposits
- Tax-free savings account: clients can invest up to R36 000 a year and R500 000 in a lifetime and get tax-free returns

Clients who deposit their savings with us trust us to keep their money safe and accessible.

We manage our clients' funds in a diligent and conservative way. Client deposits are invested in simple and easy-to-understand interest-bearing investments such as South African National Treasury Bills. On average, these investments are shorter than 3 months, with none longer than 1 year.

We are attracting more retail deposits from more clients. This means that Capitec relies less on expensive wholesale funding. We can offer higher interest rates.

1.1 million

Capitec Funeral Plan policies issued during financial year

1.6 million

policies since inception

insure

Insurance safeguards a client's future cash flows and protects them against the impact of unexpected events.

We have 2 insurance offerings:

- The Capitec Funeral Plan
- Credit life insurance

The Capitec Funeral Plan

Our app functionality for buying and maintaining a Capitec Funeral Plan is an industry first.

We personalise the Capitec Funeral Plan according to client needs. Clients can select a level of cover or premium, depending on their requirements.

Funeral cover is a simple contract, and one that Capitec can leverage through branches or the app using existing infrastructure and systems.

We understand that our clients want a plan that pays out quickly following a death to assist with funeral and related expenses. We also understand that clients want to talk through their options and benefits when buying a funeral plan. Since inception 85% of the more than 1.6 million Capitec Funeral Plan policies were issued in branches.

Insure funeral offering:

- A newborn premium cover waiver for 6 months
- Double accidental death benefit
- A death premium waiver for 6 months
- A voluntary policy pause for up to 6 months
- A burial repatriation benefit

Achievements this year

- The Capitec Funeral Plan disrupted the market. It was designed to be the most affordable, straightforward and easy to use funeral product in South Africa.

Credit life insurance

Credit life insurance is required for credit terms of 7 months and longer to cover death, permanent or temporary disability, unemployment, the inability to earn an income or retrenchment. While Capitec offers this insurance, clients have the option to provide us with an alternative policy of their choice, as long as it meets our minimum requirements.

The cover is based on a client's employment status.

Credit life insurance offering:

- Immediate availability of the contract
- No paperwork when applying
- A simple claims process
- Cover up to the age of 65
- A decreasing credit insurance premium as the value of the loan decreases
- The full outstanding amount is paid for death and permanent disability
- Temporary disability is covered for a maximum of 12 instalments
- Unemployment or inability to earn an income covers the instalments for the shorter of:
  - a period of 12 months;
  - the remaining term of the credit agreement; or
  - until the client finds employment or is able to earn an income
- In the case of retrenchment the full outstanding balance is covered

28%

of term loans are taken up at an interest rate below 20%

credit

Our credit offering is personalised to achieve the best possible credit limit, over the optimal repayment terms, with the best interest rate.

In South Africa, the demand for credit is increasing as more consumers qualify for credit. However, according to the National Credit Regulator (NCR), the credit granted is weighted toward short-term and developmental credit, which includes loans for education, small businesses, or for low-income housing.

Our research shows the same; clients use credit for productive reasons. Where clients take unsecured loans, they use these for building, education or cars. We encourage our clients to take credit for the right reasons and to match the term of their loan to the purpose for which they require the loan.

We reduced our exposure to the lower-income, short-term credit market. Our focus is on clients with quality credit behaviour and they receive better interest rates and we focus on reducing the cost of credit.

Credit offering:

- Personal term loans: personalised credit and term loans up to R250 000 over 84 months
- Credit facility: up to R5 000
- Credit card: with up to R250 000 credit limit
- Home loan: up to R5 million over 240 months via SA Home Loans

Credit features:

- Clients can choose between the amount they want, the monthly instalment that suits their pocket, or the option that gives them the lowest interest rate
- Credit is approved within minutes and the money is available immediately
- Interest rates are fixed for the period and start at prime
- Credit can be managed proactively using the Capitec app

New this year

- Increased maximum credit card level to R250 000.
- Reduced interest rate on our credit card to compete with the best in South Africa.
- Onboarding of new clients through facial recognition technology.

Achievements this year

- The average interest rate on Capitec loans granted decreased from 24% to 23%.
- An average of 17 000 new credit card clients signed up every month.
- 21% of credit on our card was issued at an interest rate of between 10% and 15%.
- 23% increase in longer-term loan sales.

Our business model

our business activities

are shaped by a single solution: Global One

Our business activities

We measure and manage in detail: because we have a single, systemic view of the business. The level of detail is one of our competitive advantages and helps us to continuously improve.

We deliver quick and efficient services through our digital presence and rely more on devices and functionality than cash.

We have scalable processing capacity and use data to help us understand client behaviour.

Decisions are fast, consistent and clear, and we manage key risks according to their impact and likelihood.

We design for clients' needs.

we want to help

clients improve their financial lives and create value for our stakeholders

Outcomes for stakeholders

Clients enjoy a transformed banking experience and we elicit continuous feedback that enables us to review our product and service offering to better differentiate Capitec.

Society is served by our offering of affordable basic banking services and our investments to develop and empower people through consumer financial education and employment.

Investors enjoy the benefits of sustainable growth and financial returns. Their confidence in Capitec is affirmed by rating agencies and by the fact that key management holds shares in Capitec.

Employees are valued, recognised and rewarded for their unique potential and talent, as they maintain the client relationships that we value.

Regulators and government can rely on us to maintain healthy capital adequacy ratios, be a responsible lender and comply with all governmental and regulatory requirements.

we are creating value by contributing to positive outcomes for the

sustainable development goals

we behave according to the

4 fundamentals

in using and transforming
our core resources

Our core resources

Financial capital is derived from retained earnings, shareholder funds and deposits to ensure that we remain well capitalised.

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

Human capital is derived from people's competencies, capabilities and experience and their ability to motivate and innovate. We employ people for their potential and their fit with our culture and values. They provide us with the attitude and skills to achieve our strategic objectives. We create employment in local communities, remunerate fairly and are committed to providing equal opportunities.

Intellectual capital entails Capitec-specific knowledge. With extensive data collection and analysis capabilities we use artificial intelligence to enhance innovative thinking in line with our core fundamentals. We continuously offer new ways of banking such as Masterpass, tap-and-go and cash-send features.

Social and relationship capital encompasses our relationships with clients, employees and other stakeholders such as shareholders, regulators as well as the communities in which we operate.

Natural capital constitutes the renewable and non-renewable environmental resources which are impacted by our operations and business activities.

28%
return on equity (ROE)

852
branches

2 380
ATMs and DNR

14 029
employees

6.7 million
digital clients

13.8 million
active clients

30%
decrease in carbon footprint intensity per employee


capitec
foundation
Community
Expansion and Growth
Economic value
Tax
Economic value
Operating expenses
Dividends

How we add economic value as a group

Year ended 29 February 2020

The group contributes to the local economy and creates wealth for its stakeholders as reflected below:

R'000	2020	2019
Direct economic value generated		
Interest income	17 041 255	15 501 072
Loan fee income	1 960 462	931 470
Transaction fee income	10 262 549	8 473 959
Funeral income	413 133	53 456
Other income	31 757	2 973
Foreign currency income	38 691	–
Net impairment charge on loans and advances to clients	(4 473 670)	(4 450 245)
Share of net profit of associates	10 907	1 965
Total direct economic value generated	25 285 084	21 309 627
Economic value distributed		
To suppliers in payment of operating expenses	5 759 868	4 497 177
To employees	4 228 754	3 750 303
Ordinary dividends	2 167 525	1 821 125
Preference dividends	6 913	8 785
Interest paid to providers of wholesale funding	792 416	601 517
Interest paid to savings clients	4 887 432	3 908 032
To providers of funds	7 854 286	6 339 459
Normal tax	2 004 894	2 152 404
Value added tax	741 290	717 713
Unemployment insurance	23 038	21 568
Skills development levies	35 386	29 757
Property rates and taxes	19 688	16 325
To the public purse	2 824 296	2 937 767
To the community	33 578	56 946
Total economic value distributed	20 700 782	17 581 652
Economic value retained for expansion and growth		
Retained income	4 076 658	3 465 501
Depreciation and amortisation	707 573	633 459
Deferred tax	(199 929)	(370 985)
Total economic value retained for expansion and growth	4 584 302	3 727 975

Our stakeholders and contribution to sustainable development

Our purpose supports the intent of the United Nations Sustainable Development Goals (SDGs) and our business model contributes to these outcomes for humankind. Our focus is on South Africa and the many ways in which we can make this country better, for all of us.

Relationships with our stakeholders

We believe that value resides in relationships. By building relationships we can offer superior banking and create value for all our stakeholders.

The executive committee (EXCO) and the board's social and ethics committee monitor relationships.

We enable our clients to improve their financial lives by transforming their banking experience. Our clients come first.

Investors, analysts and rating agencies enable us to invest in growth while maintaining conservative liquidity levels. The ratings assigned by rating agencies affect the availability and pricing of funding for operations and growth.

To enable improved interaction Capitec live-streams the annual general meeting and other presentations.

We contribute to a healthy banking system and credit market in South Africa for government and regulators. Good relationships with these stakeholders enable us to provide input on policies and regulations that may affect our operations.

Our employees are valued for their unique potential and talent. They are also our main source of intellectual capital and innovation.

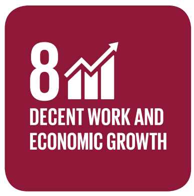
Our mission for society is to make banking simple and transparent to help people improve their financial lives. Communities offer a pool of employees and potential clients. We care for their welfare and contribute to their development and empowerment.

We describe the value that Capitec creates for each stakeholder in our business model on page 34.

We engage with stakeholders on the channels that they prefer, which range from social media, to our call centre, app and face-to-face meetings.

Capitec's main areas of contribution

Promote inclusive and sustainable economic growth, employment and decent work for all



Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs that stimulate the economy while not harming the environment. Job opportunities and decent working conditions are also required for the whole working age population. There needs to be increased access to financial services. Increased commitment to trade, banking and agriculture infrastructure is required to help increase productivity and reduce unemployment levels.

Capitec creates employment and helps clients live better financial lives. We offer a safe and healthy work environment and have a culture that promotes diversity, inclusivity and personal development. We remunerate fairly and invest in young talent. Read more in the section about our employees from page 41.

Promote inclusive, quality education and lifelong learning for all

4 QUALITY EDUCATION

Obtaining a quality education is the foundation for creating sustainable development. In addition to improving quality of life, access to inclusive education can help equip people with the tools required to develop innovative solutions to the world's greatest problems.

In the past decade, progress has been made towards increasing access to education at all levels and basic literacy skills have improved, yet bolder efforts are needed to make even greater strides for achieving universal education goals.

The Capitec Foundation contributes to a brighter future for young South Africans by upskilling them with the necessary numeracy and financial life skills to manage their financial lives. This enables them to get access to tertiary studies and bring long-term change to their respective communities and the country as a whole. Capitec is committed to playing an active role in addressing the financial literacy and numeracy challenges in South Africa. Read more in the section about our society and communities from page 50.

End poverty

1 NO POVERTY

10% of the world population still lives in extreme poverty and struggle to fulfil their most basic needs related to health, education, and access to water and sanitation.

Having a job does not guarantee a decent living, with many employed workers and their families also living in extreme poverty. This affects children disproportionately and calls for social protection for all vulnerable groups.

Capitec's contribution to ending poverty focuses on social investment initiatives that address financial inclusion and education. We target students, employees and special interest groups. Our emphasis is on personalised and relevant content and tools to help them make better financial decisions. Read more in the section about our society and communities from page 50.

Contribute to empowering women and girls

5 GENDER EQUALITY

Capitec supports gender equality by promoting diversity and inclusivity in the work place. Read more in the section about our employees from page 41.

South Africa is considered one of the most unequal societies in the world and has some of the highest levels of gender-based violence. Despite the fact that employment opportunities for poor women are historically limited, we have more female than male-headed households.

The Capitec Foundation supports organisations that are actively involved in having a long-term, positive impact on the care for and support of abused and neglected women and children with once-off donations. Read more in the section about our society and communities from page 50.

Capitec supports gender equality by promoting diversity and inclusivity in the work place. Read more in the section about our employees from page 41.

Promote the social, economic and political inclusion of all

10 REDUCED INEQUALITIES

Income inequality has increased nearly everywhere in recent decades, but at different speeds. As a global problem it requires sound policies to empower lower income earners, and promote economic inclusion of all regardless of gender, race or ethnicity.

In South Africa, the challenges of poverty, inequality and unemployment have remained the overriding concern of South Africa's development policies and programmes.

Capitec contributes to social and economic empowerment through our commitment to Broad-based Black Economic Empowerment (B-BBEE) as a corporate responsibility and a uniquely South African challenge. We adhere to the requirements of the amended Financial Sector Code (FSC) which actively promotes a transformed and globally competitive financial sector. Read more about our B-BBEE scorecard from page 53.

Our employees

8 5

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

Employment challenges in our operating environment

People working for financial institutions all over the world are facing employment challenges: they need to develop digital skills, choose between a new variety of employment contracts and be able to manage change and complexity on many levels.

To attract employees, employers in turn have to offer integrated employee experiences that mirror what they are offering clients. Organisations also have to demonstrate the kind of leadership that brings transformation and builds trust.

Some of the South African challenges that affect our clients and employees are high levels of unemployment, transport costs and crime.

Capitec's own challenges within the South African context include specific employee-related matters such as:

- Continuously attracting scarce skills, remaining relevant when competing for and signing on sought-after talent
- External financial stresses on employees in the increasingly challenging economic environment
- Providing and maturing leadership and management skills

As an employer, we improve South Africa's employment situation by doing the following:

- Creating job opportunities
- Focusing our recruitment on young people who need to gain work experience and build their skills
- Offering job security to a younger demographic that is exposed to higher unemployment rates
- Providing training and development for employees
- Offering career opportunities and reward strategies that are aligned to what employees value

93%

of employees are from designated groups[1]

83%

of our workforce is 35 years and younger

255

Increase in employees

27

years – average age of new appointments

South Africa's unemployment rate is at

29.1%[2]

The youth unemployment is at

40.1%[2]

[1] Designated groups are defined as per the Employment Equity Act.
[2] At Q4 2019 according to Statistics South Africa.

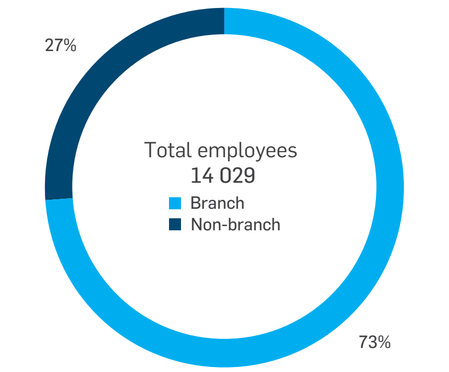
91%

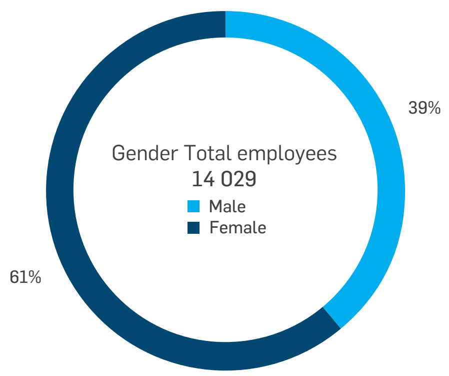
of participants in Banking Sector Education and Training Authority (BANKSETA) learnerships are from designated groups and 69% are female

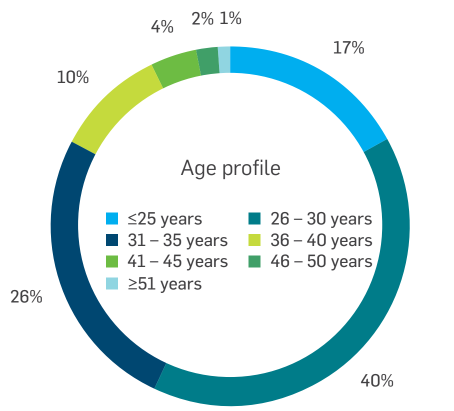
100%

of our graduate development programme participants are from designated groups and 47% are female

EMPLOYMENT PROFILE AND APPROACH







Our employment profile and approach

In our branches, we prioritise employing the younger profile in surrounding communities. We appoint people for their potential as we take responsibility for providing appropriate learning and development opportunities. This approach means that we offer jobs where they are most needed: for young people and in areas where the real unemployment rate is higher than the national average. We also drive a branch employee profile that is aligned to the local demographic of each branch. This supports our commitment to employment equity and diversity in our workforce profile.

Our human resource operating model

The human resources (HR) operating model includes:

- Strategic consultancy to top management through our HR Business Partners
- Employee and candidate services through our HR Shared Services
- HR functional expertise provided by centres of excellence

This is enabled by technology. We are developing a human resource management system to track, manage and support employees from their first point of contact with us. This end-to-end solution includes performance management and integration with the learning management system and our payroll solution. The system will be rolled out to all areas of the business in the next year.

Capitec culture – unlocking potential in people and business

We believe in our people's willingness and potential to make a meaningful contribution to Capitec's sustainable growth and success. We aim to unlock our people's potential. We therefore engage with them with a sincere desire to understand what they need and want, to ensure motivation, engagement and commitment.

This year we consolidated the Capitec culture anchors by integrating the concepts that are core to our success and sustainability. First among these are the 4 fundamentals and core values set out on page 28. The client first, energy and ownership (CEO) behaviours are intrinsic to our existence. By collaborating with the EXCO on these, we defined and established a culture framework.

61%

of employees are female

90%

of internal bursaries for tertiary studies were awarded to designated groups and 59% are female

We define success in our culture by how well we unlock the potential of all of our people – this is the purpose of Capitec leadership. We believe our leaders are the custodians of our values and culture. Capitec leaders care and therefore inspire, empower and develop the teams they lead – enabling cohesive, high-performing teams.

We believe these behaviours will bring together all the aspects of 'smart' (what we do) and 'healthy' (how we do it) within the context of our culture. This will create an environment of organisational health. If carefully nurtured, this environment will give us a distinctive and sustained competitive advantage for many years to come.

We integrated the Capitec culture framework and the vital leadership behaviours into quarterly leadership summits and divisional team cohesion sessions. Next year the process will continue and our diversity and inclusivity initiative will also be integrated into this process.

Diversity and inclusivity

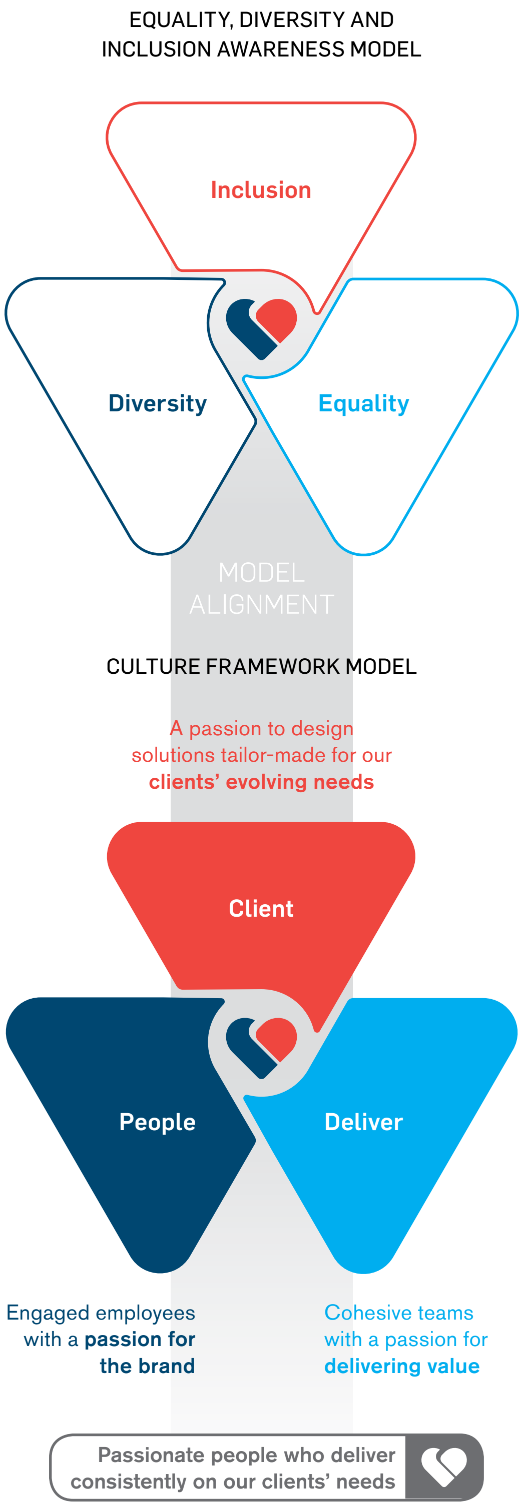
Capitec exists and operates in a diverse and dynamic country with endless potential. The Capitec culture framework shapes an inclusive environment which is conducive for a diverse group of employees.

We launched a diversity and inclusivity initiative as part of the Capitec culture shaping journey. We continuously re-evaluate what is serving our people and clients well, and what is not.

Diversity and inclusion only gain traction when our leaders lead by example. We invest in our people leaders through awareness and education sessions, which are foundational blocks for transformation. These investments will cascade to all individual contributors in due course, as true progress will require collective efforts and insights.

We emphasise the benefits of diversity among our employees. We support this by maintaining a fair and equitable work environment.

We believe that the combination of diversity (acknowledging visible and invisible differences) and inclusion (the quality of the organisational environment) brings competitive advantage. It delivers high levels of employee collaboration, retention, engagement and morale.



65%

of our management learning participants are from designated groups and 39% are female

96%

of our external bursars are from designated groups and 50% are female

Workforce profile*

Occupational levels	Male					Female					Foreign nationals			Total
	African	Coloured	Indian	White	Total	African	Coloured	Indian	White	Total	Male	Female	Total	Total
Top management	2	0	0	8	10	0	0	0	0	0	0	0	0	10
Senior management	4	1	2	51	58	1	1	2	6	10	0	0	0	68
Professionally qualified and experienced specialists and mid-management	100	84	29	323	536	140	68	25	121	354	6	2	8	898
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	469	315	77	340	1 201	790	334	60	236	1 420	7	3	10	2 631
Semi-skilled and discretionary decision making	2 582	713	116	217	3 628	5 047	1 315	157	243	6 762	2	11	13	10 403
Unskilled and defined decision making	1	0	0	0	1	0	0	0	0	0	0	0	0	1
Total permanent	3 158	1 113	224	939	5 434	5 978	1 718	244	606	8 546	15	16	31	14 011
Temporary employees	1	0	0	1	2	1	1	0	0	2	0	0	0	4
Grand total	3 159	1 113	224	940	5 436	5 979	1 719	244	606	8 548	15	16	31	14 015

* *Data as per the Equity Report submitted to the Department of Labour for the period December 2018 to November 2019, as per the Department's statutory requirements.*

The workforce profile is a snapshot of our employees across occupational levels, gender and equity groups as prescribed by the Department of Labour in the Employment Equity Act (55 of 1998, as amended August 2019).

Our diversity at mid and senior management level show year-on-year improvements, but remains challenging. Further improvement is a priority. These challenges are exacerbated by aspects particular to these positions, such as their job location, scarcity of specialist skills and low turnover. We address these challenges through a variety of people initiatives, highlighted in the sections below.

Having identified the drivers for diversity and inclusivity, we developed a plan to manage our diversity pipeline from pre-employment. Drivers include the external bursary programme, the graduate development programme, targeted equity learnerships and our internal bursary programme. Through the appropriate selection, support and mentoring, we strengthen Capitec's future diversity.

We are committed to appointing diverse candidates, particularly at middle to senior management levels, by developing young graduate pipelines and focusing on succession planning.

- We review and confirm intake and equity targets for external and internal talent pipelines annually.
- We build purposeful partnerships with educational institutions and focus sponsorship programmes nationally. We proactively engage with designated students that study towards qualifications that are aligned with Capitec's scarce and critical skills.
- Our graduate development programme identifies, develops and retains young equity leadership talent.

Employee value proposition

We know there is a direct correlation between a great employee experience and a great client experience. The Capitec culture framework shapes our culture towards passionate people who deliver consistently on our clients' needs.

Our people philosophy is rooted in our passion for client-centricity, the belief that people are at the core of our business, our drive for results, our entrepreneurial spirit, and a human resources offering that is sophisticated in its simplicity. We want employees to gain value from their employment. Our employee value proposition (EVP) constitutes a mix of benefits and ways of working.

Capitec employees strive to offer their best by behaving like a CEO in every situation (putting the client first, acting with energy and owning the interaction). In return, Capitec offers value to our employees to support them in being their best.

EMPLOYEE VALUE PROPOSITION

We value our people and enable them to be their best

Our future focus is to embed the EVP further and to ensure that culture, technology and space creates optimal employee engagement and experiences.

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

We offer a wide range of employee benefit programmes, including:

- An employee wellness programme (also extended to family members)
- Risk benefits (life, capital and temporary disability cover)
- Funeral cover
- Medical aid and health insurance
- Gap cover
- Retirement planning
- Free remote banking
- Discounts on loan interest
- A bursary scheme including employees' family members

Employee relationships with line management

Line managers are responsible for people practices throughout the employee journey. This is consistent with our open culture and flat structure. Employees engage and develop their talent when there is a healthy relationship between line managers and the employees who report to them. Good working relationships ensure that both parties take responsibility for their actions and performance.

Our employee relations approach includes the following:

- Proactively encouraging 2-way communication across all levels
- Employee-related policies, including (but not limited to) disciplinary, grievance and sexual harassment policies
- Communicating our policies to employees to provide clarity and guidance
- Continuous monitoring to ensure compliance with applicable legislation

This approach ensures that employees experience transparency and fairness in their engagement with the business. We respect confidentiality but are open about processes and requirements. This contributed to the fact that there was no loss of working hours due to industrial action this year.

Capitec and SASBO – The Finance Union entered into a recognition agreement where basic organisational rights were afforded to the union. These provide for deductions of union subscriptions, access to the workplace and leave for trade union activities. These rights will be extended in the future to include the right to access to certain information and the election of union representatives in the workplace.

Talent acquisition

To remain competitive, we need to attract employees who have the appropriate skills, experience, values and diversity required by our business model and strategy. In the past year, employees grew by 255 people. Altogether 41% of these positions required information technology (IT) or data science skills. Certain IT and data science skills have become highly sought-after owing to Capitec's strategic and competitive positioning. We adapt our sourcing and acquisition approach to the required skills segments in the market to reach, engage and sell our opportunities to these sought-after candidates.

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

We focused on improving efficiency in branches this year. As the required mix of skills and experience in the branches continues to evolve, our aim is to make appointments that will support a bank of the future. Our recruitment process includes a holistic assessment of candidates to determine the fit in terms of the position, our service model and our values.

Talent retention

We want to identify and develop suitable and motivated employees who are able to be considered for future senior leadership positions. This forms part of our retention and succession planning.

We are committed to the development of employees from within. This ensures that we can retain talented employees and continue growing our business and delivering services. To manage talent retention, we use robust talent metrics, diagnostics and performance review discussions.

We limit human capital risks by analysing employee data, predicting and managing succession needs and identifying opportunities for talent development.

Retention challenges are:

- our uniquely young employee profile;
- the high mobility of suitable employment equity candidates in the general market; and
- the competition for sought-after skills in the industry (such as technology and data science skills).

We continue addressing retention challenges by offering internal development and career path opportunities. At the same time, we are investing in graduate development and learnerships to expand the pool of available candidates.

We also employ our flat hierarchy structure to create exposure opportunities not available in other companies. This is often cited by employees as a meaningful retention factor.

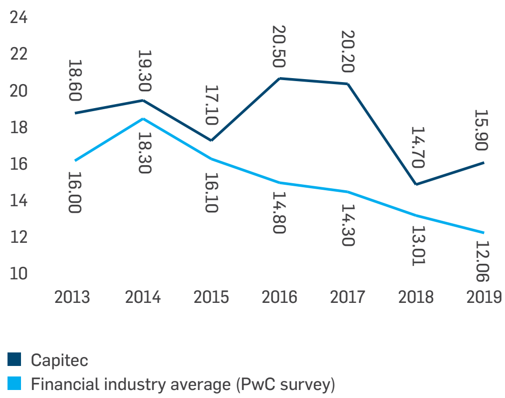
Succession planning is a challenging aspect of retention in a business environment in which there are low levels of retirement and turnover in senior positions. Succession candidates are identified and assessed in terms of potential and technical skills. We have created structured opportunities for exposure and integration. Specific senior positions have been earmarked for potential equity appointments.

All executives, including the CEO, have a 3 month notice period in place, supported by succession plans and associated supporting programmes.

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

The below graph illustrates that the employee turnover levels are consistently low.

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



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

Capitec's employee tenure profile reflects a rapidly growing business.

Tenure (years)	2020 %	2019 %
<3	**49**	54
4 – 6	**26**	24
7 – 9	**15**	13
10 – 12	**6**	5
13 – 15	**2**	2
16 – 22	**2**	2

Talent development

Our talent development strategy is centred on transforming the business into a learning organisation where all employees are empowered to unlock their potential. This is a team effort involving human resources, line management and employees.

The design and delivery of formal learning programmes involves senior management to ensure that programmes meet business objectives. Informal learning has become more prominent and is supported by our Digital Learning Strategy.

This ensures that we meet our service objectives and fundamentals in terms of new products, services and legislative requirements. It allows us to adapt talent development in response to changing client needs and creates closer alignment between learning and business requirements.

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

Formal learning measured

Number of employees attending courses	2020	2019	2018
Induction/onboarding	2 555	2 361	1 849
Functional/technical	1 695	1 767	3 877
Management and leadership	2 463	4 810	793
Compliance	828	1 068	198

Number of completed digital learning courses	2020	2019	2018
Induction/onboarding	122 092	9 795	7 329
Functional/technical	517 681	24 108	16 368
Management and leadership	2 621	1 789	3 243
Compliance	48 497	14 018	14 840

During the reporting year we continued transforming the business into a learning organisation. This involved the following:

- The design and development of world-class formal learning programmes
- Continued development of great leaders by embedding the foundation that was laid during the previous year and investing in innovative ongoing leadership development opportunities
- Enabling leaders to shape the organisational culture through displaying our vital leadership behaviours
- Focusing on team cohesiveness to enhance our ability to achieve business goals and improve employee engagement levels
- Working towards maturing our digital learning strategy, including online learning resources and advanced learning technology functionalities
- Investing in a continuous development process and supporting tools

"My growth took place throughout the 18 months journey. I was challenged, I was moulded and I was reminded of my purpose. I also had the opportunity to give back (as part of our financial education drives) and to see the impact in young people's financial lives… The programme supported me to build networks. You get to understand how the business and your function fit together cross-functionally, and this had a positive impact on how I solved problems."

– Capitec employee, graduate development programme member

- Expanding our formal education offering in academic and occupational tertiary qualifications (degrees and learnerships). This included the implementation of a generic management learnership for first-line managers, as well as the design of a BComm degree for middle and senior management

Leaders at all levels attended leadership development focusing on inspirational leadership, improving the cohesiveness of teams and developing our employees towards a positive Capitec culture.

Client-centricity remains a key focus area and is instrumental in understanding our clients. We continued the implementation of programmes to foster this approach. We continuously focus on increasing the selling skills and product knowledge levels of new and existing client-facing employees.

Capitec's formal education strategy is supported by various funding models, including bursaries and learnerships.

The internal bursary programme has a funding model that supports acquiring a formal education. It addresses key skills gaps and aligns key talent development to our specialist and leadership talent pipelines.

We increased the reach and effectiveness of our learnership programmes, aimed at improving competencies and the engagement levels of our people.

"I have grown as an individual, both professionally and in my personal space. The programme encouraged me to be deliberate and intentional about certain things in my life… The most valuable rotation was the branch rotation. I now value the effort that goes into the training of our service consultants. Interacting with our clients first hand was an eye opener and it shaped how I engage with problems in the Capitec ecosystem and how I think through problems. My point of reference will now always be the client."

– Capitec employee, graduate development programme member

Future priorities

Priorities for the next year include:

- Focused and accelerated development of high potential leaders to ensure that future-fit talent pipelines are developed and succession requirements are met. This will be aligned to our Employment Equity strategy
- Continuing to develop great leaders by investing in innovative ongoing leadership development opportunities
- Developing leaders to enable team cohesion, to enhance our ability to achieve business goals, improve employee engagement levels and continue shaping the organisational culture
- Further maturing our digital learning strategy, including online learning resources and advanced learning technology functionalities
- Investing in a continuous development process, tools and learning abilities in support of our learning culture
- Establishing learning academies in selected business areas to ensure a consist pipeline of scarce skills
- Expanding our formal education offerings by cementing the existing learnership offerings and the introduction of an occupationally directed BComm degree

Talent management

Capitec's talent management strategy integrates practices to attract, engage, inspire, develop and retain critical people to build organisation-wide competitive advantage. The talent management strategy aligns our activities to the longer term Capitec strategic objectives. Activities include the proactive identification and optimisation of key pipelines, key critical jobs and resources, and career paths that lead to these roles. We develop cross-functional specialist and management capability to ensure we can fill succession gaps. By building and continuously improving line management capability we ensure that they drive and own talent and succession management as part of their management responsibility. These are included as a key performance assessment indicator in all managerial performance contracts.

External talent initiatives

The external bursary and sponsorship programmes support our long-term external talent pipelines. We aim to attract suitably qualified equity candidates for scarce and critical roles, including software development, credit decision support, finance management, business development, data science and business intelligence.

We expanded funding options for the external young talent pipeline through strategic sponsorship opportunities. These support the continued identification of young talent for the business. For the 2019 academic year, 41 young people (76% designated) were sponsored through the MAD (Make a Difference) Leadership Foundation. We continued engaging with them during the year to determine potential future placement within the business. A key success of the programme is the placement of a final year student within the IT risk team as part of the 2020 graduate development programme.

Internal talent initiatives

A graduate development programme supports the diversification of our management profile. 7 graduates successfully completed the programme and entered the business in 2019. There are currently 17 graduates that have joined Capitec via the programme, including 6 graduates finalising their rotation in 2020, and another 11 joined Capitec in early 2020. We have 17 graduates in the programme of which 47% are female and all are from designated groups.

We embarked on a formal process of talent potential assessments through the future fit leaders' initiative. We proactively identify and develop suitable and motivated employees who can be considered for future senior leadership positions. This ensures the sustainability of future fit leaders. The initiative was executed in partnership with a local service provider who are thought leaders in people optimisation. Through this partnership we managed to scientifically assess 127 leaders against our revised leadership competency framework to date. The framework emphasises the importance of leading self, leading people and leading results.

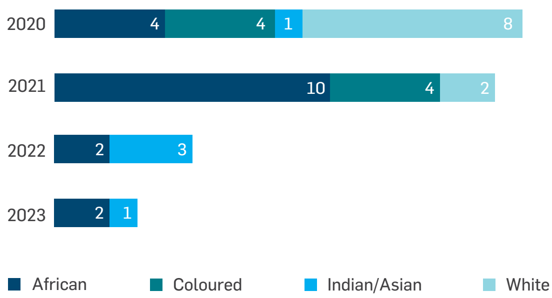
The assessment results highlighted the strengths and development areas of our leaders. We can now develop our leaders using an individualised approach and timeframe unique to each leader's growth journey. This talent pool includes leaders across the 9 Capitec divisions as well as graduates who successfully completed their 18 month graduate programme. We consistently increased our number of female leaders as well as employment equity employees to ensure that we develop a diverse range of leaders. We also included a fair number of young leaders (employees <35 years in age) that we can fast track and develop for senior leadership positions.

Systems and efficiency

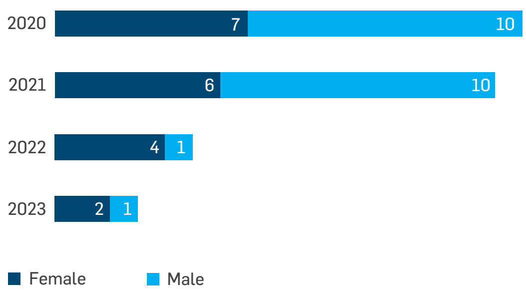
Our objective is to increase throughput of head office support processes by 30% by the end of the 2021 financial year. By using technology and adopting best practice, the talent management team will support the successful implementation and adoption of SAP and the associated business processes. These include ownership of the talent management modules (performance, goals, succession and development). The talent management modules will centralise and provide line management with access to all the basic building blocks, including:

- Performance development practices across the business
- Individual driven career and development practices
- Line-owned talent identification and succession planning practices
- Capitec's human resource platforms for role profiles, competencies, principles, practices and systems

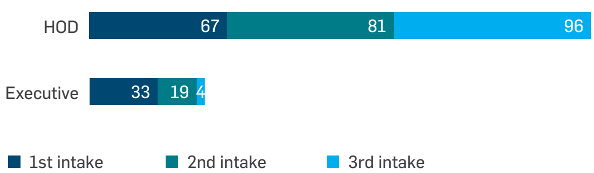
EXTERNAL TALENT PIPELINE DEPTH PER YEAR (GROUP DISTRIBUTION)



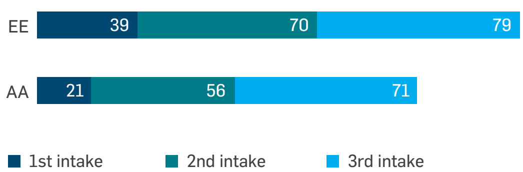
EXTERNAL TALENT PIPELINE DEPTH PER YEAR (GENDER DISTRIBUTION)



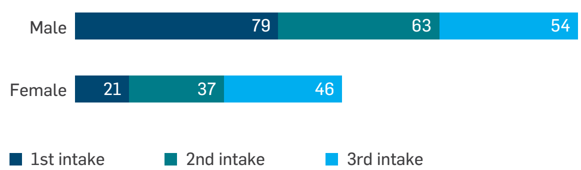
FUTURE FIT LEADERS: NOMINATION DISTRIBUTION INTAKE 1 TO 3 (%)



FUTURE FIT LEADERS: GROUP DISTRIBUTION INTAKE 1 TO 3 (%)



FUTURE FIT LEADERS: GENDER DISTRIBUTION INTAKE 1 TO 3 (%)



Education for our society and communities

Capitec is committed to playing an active role in addressing the financial literacy and numeracy challenges in South Africa. This aligns to our purpose to enable people to improve their financial lives.

Consumer education

Since inception, we responded to the challenge of financial inclusion by providing greater accessibility to banking. Our branches are located in areas close to communities, places of work and public transportation.

Financial education has become a key component of Capitec's value proposition. Our objective for financial education is to increase consumers' financial capability. This can empower them to make better decisions that will help them improve their financial lives. Becoming financially healthy is not a once-off event. It is a series of small financial steps and decisions, which become valuable over time.

Our financial education team delivers innovative educational solutions that are true to Capitec's core fundamentals.

Livin' it Up

We launched our financial education mobile game, Livin' it Up, in September 2019. The game shines light on consumers' attitudes and behaviours towards money – allowing players to experience the impact of present decisions on their future financial goals. The game has a strong savings message: players win when their game character reaches their savings goal. We achieved 39 697 downloads since the launch and continue to add features and content to create maximum opportunities for learning through play.

Live Better Academy

We completed a successful pilot phase of an online financial education platform. We aim to launch the platform early in the 2021 financial year. The learning platform offers a series of financial education courses.

StarSaver

We continued our support of BASA's flagship generic financial literacy programme, StarSaver, which encourages a culture of saving among young people and promotes volunteerism and collaboration in the banking industry.

Budget Champs

Our new interactive budgeting card game, Budget Champs, is aligned to the grade 7 economic and management sciences curriculum. The idea is for educators to use the card game in their classes as a way to teach budgeting and savings lessons in a fun way. Learners can introduce the game to their households.

The game was introduced to 138 grade 7 educators at 2 financial skills workshops and received an enthusiastic response as a brand agnostic learning tool. It will be rolled out in phases during the next financial year.

capitec foundation

Other significant social initiatives

GRAD MAG

Capitec sponsored the printing and distribution of 170 000 copies of GRAD MAG, a magazine aimed at 1st generation 1st-year students. The magazine contains helpful articles, covering topics such as money management, time management, nutrition, study methods and goal setting. GRAD MAG is issued in partnership with Ruda Landman's Readers Unite initiative, StudyTrust and Van Schaik publishers and is endorsed by the South African National Resource Centre. We are developing a final year magazine to equip graduates with necessary life and financial skills for entering the job market.

Summit Financial Partners

Summit Financial Partners and Capitec continued a partnership to cofacilitate and execute a financial improvement and skills development programme at employers' places of work. 5 164 people participated in 6 events.

Soccer Laduma and Drum magazine

We delivered a 4 week financial education print campaign in the Soccer Laduma and Drum magazine. Content was delivered in the form of 4 themed inserts entitled, The Money Guide. These were supported by weekly USSD quizzes which encouraged engagement and tested knowledge based on each week's content. A total of 52 581 unique individuals participated in the USSD quizzes over the duration of the campaign.

Radio and Massive Media campaigns

We ran a 6 week radio education campaign on Metro FM, Gagasi FM and Massive Media. The campaign was also delivered in weekly themes (4 days a week) where each theme comprised 2 features with well-known independent financial experts, a listener quiz and a question and answer session. A digital campaign amplified both campaigns.

Our focus during the financial year 2021 will be to expand our digital education experiences, with emphasis on personalised and relevant content and tools to help our clients make financial decisions that are in their best interest.

The Capitec Foundation

The Capitec Foundation was established in June 2015 as our main vehicle for social initiatives. The Foundation is an independent non-profit organisation with a multipronged approach focusing on:

- maths tutoring
- teacher development
- school management development
- financial life skills

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

The Foundation is governed by a board of trustees and follows the Capitec risk management process. There are approved policies that guide us on how to choose and fund programmes. The Capitec social and ethics committee also receives reports on the activities of the Foundation.

Numeracy and financial literacy support

Teachers are key to improving quality education in South Africa. We support teachers to keep up with trends and best practices in their field. Professional development makes teachers better educators.

Maths tutor programme

We piloted this programme for the past 2 years by recruiting and training university students doing their postgraduate degrees in education. We offered them training and paid opportunities to teach maths to gain experience. In the process we tested the programme's impact, scalability, cost-effectiveness and sustainability. The pilot project in the Western Cape involved 4 schools, 34 tutors, 3 mentors and 330 high school learners. In the next year, the programme will be extended to 3 hubs, supporting 15 surrounding schools in the Western Cape.

Teacher development programme

The teacher development programme is aimed at in-service teachers, with 45 from the Eastern Cape and 18 from the Western Cape participating. Teacher training workshops were held for 200 teachers in KwaZulu-Natal.

The programme upskills teachers to improve their teaching. We measure success by improved maths performance by learners linked to these teachers and an increased number of learners passing matric with maths.

School management development programme

This programme by the University of Cape Town (UCT) and the Graduate School of Business (GSB) aims to upskill individuals in leadership roles at schools to help schools perform better. Altogether 23 school principals in the Western Cape and 21 in the Eastern Cape participated.

This year, we expanded the programme to KwaZulu-Natal in partnership with Partners for Possibilities. 9 principals and 1 senior manager enrolled. The programme offers a colearning partnership between school principals and business leaders, enabling social cohesion and empowering principals to become change leaders in their schools and communities. A further benefit is the cross-sectoral reciprocal partnerships that are created between business, government and the social sector.

Employee volunteer programme

Capitec launched an employee volunteer programme to support and encourage employees to give back to their communities – as groups or individuals, through the Foundation. Whereas employees were previously entitled to 1 corporate social investment (CSI) leave day per year, this increased to 3 days due to the uptake and successes of the programme.

Over and above the leave given, Capitec supports these initiatives by matching funds raised by employees on a rand-for-rand basis.

Sponsorships

Ikamva Youth

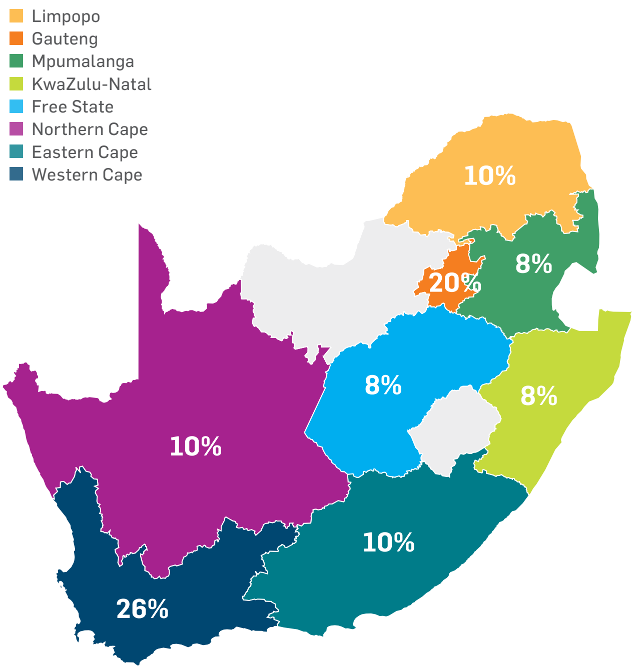
Capitec sponsors Ikamva Youth's maths and science camps, aimed at equipping high school learners to do well in their examinations. The organisation's mission is to enable disadvantaged youth to pull themselves and each other out of poverty and into tertiary education or employment. Over 5 000 high school learners are impacted.

Incubator Support Programme in partnership with the Nelson Mandela University Govan Mbeki Maths Development Centre

The centre in Port Elizabeth has, over the past year, partnered with the Capitec Foundation to implement a series of innovative mathematics and physical sciences development and support initiatives for secondary school teachers and learners in the Nelson Mandela Bay, Komani (formerly Queenstown) and Mthatha district of the Eastern Cape Province. This resulted in the successful implementation of a customised offline information and communication technology (ICT)-assisted model for mathematics and physical sciences in secondary schools. This model had a noticeable positive impact on project learners as well as participating pre-service and in-service teachers. During the 2019 calendar year, the programme reached 323 grade 10 to 12 learners.

Donations

The Foundation donated R3 million to 50 organisations that shelter abused women and children in the past financial year. Donations per number of organisations per province are illustrated below.



Communities

Our donations go towards the communities where branches are located. Donations can take many forms, including cash, clothing, toys and food. We provide donations to organisations that are actively involved in having a positive long-term impact.

Ikusasa Student Financial Aid Programme

Over and above the donation made through the Foundation, Capitec also supports industry initiatives such as the Ikusasa Student Financial Aid Programme. The programme was established to sustainably cater for the higher education needs and costs of South Africa's poor and middle-class students. Capitec donated R2 million to support students who are enrolling for maths teaching.

B-BBEE

10 REDUCED INEQUALITIES

We are committed to B-BBEE as a corporate responsibility and a uniquely South African social and economic challenge.

We adhere to the requirements of the amended Financial Sector Code (FSC) which actively promotes a transformed and globally competitive financial sector. This contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

Our most recent verification confirmed the bank's B-BBEE status as a level 4 contributor.

Embedding diversity and inclusion

In December 2017 the Financial Services Sector scorecard changed, which saw us dropping to a level 6 contributor. At Capitec Bank we see empowerment as more than just a scorecard, and we set up a strategy not only to increase our score on the scorecard to regain a level 4, but also started a diversity and inclusion programme to understand inclusion of minority and excluded groupings. This is in support of extending our employment equity programme.

Social and enterprise development

Our strategy towards various Socio Economic, Enterprise Development and Consumer Education programmes led to a spend of more than R77 million.

We invested in excess of R136 million in Supplier Development Programmes.

Empowering financing

Capitec Bank achieved 12 points in the targeted investment component by reaching its allocated target for the measurement period by providing financing for affordable housing to clients with a household income of less than R24 000 per month.

Access to financial services

The bank reached the target for the product-related access component by attracting lower-income clients to take up the bank's savings account offering. The total monthly cost of operation was well below the industry standard and the bank subsequently achieved all the available points. The take-up of the bank's remote banking offering by the lower-income clients also exceeded the industry target. This resulted in full recognition for this component.

Summary of Capitec Bank's scorecard(1)

Element	2020	2019	2018	2017
Ownership	**14.28**	14.28	16.54	9.19
Management	**7.76**	8.14	8.09	3.26
Employment equity(2)	**–**	–	–	6.63
Skills development	**14.22**	14.71	11.27	9.01
Preferential procurement	**16.92**	11.55	9.90	15.27
Enterprise development	**11.73**	11.00	5.84	1.58
Socio-economic development	**5.94**	5.21	3.00	1.28
Empowerment financing	**12.00**	12.00	12.00	12.00
Access to financial services	**11.40**	11.59	11.40	9.30
Total	**94.30**	88.48	78.04	67.52

(1) *Provisional B-BBEE scorecard. The scorecard changed in December 2017.*
(2) *Employment equity is included in management from 2018.*

Hello Mercantile Bank

Mercantile's market opportunity

Through Mercantile's clients, Capitec will now start servicing small businesses and entrepreneurs. They also want banking solutions that are simple, accessible, affordable and personalised. Capitec has an opportunity to disrupt the business banking market and change the way that businesses bank in South Africa.

Who is Mercantile

Mercantile is now part of Capitec and this gives Capitec an opportunity to expand and diversify.

Mercantile is a nimble and dynamic full-service bank. It strives to be the number 1 business bank, servicing the needs of entrepreneurs in South Africa.

The product range includes transactional banking, lending, foreign exchange, deposits, payment/services and private banking exclusively for entrepreneurs.

For now, the 2 banks will operate independently. Capitec branches will service retail clients and Mercantile business centres will service business banking clients.

Why Mercantile exists

Mercantile's purpose is to grow entrepreneurs. It is a niche business and commercial bank that services the needs of established business and commercial clients. Its key differentiator is its in-depth understanding of the needs of the South African entrepreneur. It has strong client relationships based on high-quality service. These relationships are underpinned by a unique single point of contact management model, and clients have 1 relationship manager regardless of their product or service needs.

Mercantile's model is founded on service, tailored solutions, short turnaround times and building relationships.

Because Mercantile is a service-driven organisation, service standards are applicable to client services and internal service delivery. Mercantile continues to build a highly motivated workforce to constantly improve service levels.

Product offering

transactional banking

- Business current account: a transactional account designed for day-to-day use
- Private banking: a bundled product designed for entrepreneurs
- Credit card: with a personalised credit limit

saving

- Call account: allows clients instant access to their money. Withdrawals and deposits can be made at any time, while earning interest
- Notice deposits: clients have access to funds after placing notice to withdraw a specific amount
- Tax-free savings account: Clients can invest up to R36 000 per year, and a maximum of R500 000 in a lifetime, and get tax free returns

lending

- Overdraft facility: A fluctuating credit facility linked to a business bank account allowing the client to cover monthly obligations by managing cash flow and working capital requirements
- Instalment sale agreement: A credit facility that enables clients to pay affordable instalments for moveable and durable goods for their business requirements
- Residential home loan: Long-term finance for residential property, structured over a fixed period, providing access to surplus funds in the account
- Commercial property loan: Business property finance which can be utilised for acquiring new business premises or expanding businesses
- Medium-term loan: loans with specific repayment periods

treasury

- Foreign exchange
- Money market solutions
- Trade finance
- Products include forward exchange contracts (FECs), derivatives, structured solutions and exchange control advisory.

payment solutions

- Leading-edge, cost-effective, time-saving and secure systems for processing and managing electronic payments and collections.
- Collection services
- Payment services
- Authenticated collections
- Data validation
- Bank account validation

rental finance

- Provides small to medium-sized businesses asset rentals such as office automation equipment, telecommunications and security surveillance. Contracts for rental finance are entered into for 24 to 60 months with an option to become evergreen thereafter.

Mercantile's business model

our business activities

are oriented towards banking solutions for entrepreneurs

we want to partner

with entrepreneurs on their journey towards creating successful businesseslives and create value for our stakeholders

Our business activities

We cultivate great relationships with entrepreneurs through high-quality service.

We offer tailored solutions with short turnaround times.

We have a single point of contact management model: clients have 1 relationship manager regardless of their product or service needs.

We have a highly motivated workforce that shapes a service-driven organisation.

Outcomes for stakeholders

Clients enjoy a unique banking experience and strong relationships based on great service and an in-depth understanding of the needs of the entrepreneur.

Employees are valued, recognised and rewarded. Employees are passionate and motivated and know that banking is about people.

Society benefits from socio-economic initiatives and growing entrepreneurs.

Regulators and government can rely on Mercantile to comply with governmental and regulatory requirements.

Investors have the benefit of sustainable growth.

Through Mercantile we are able to

expand and diversify

the value we create

We behave according to the

4 fundamentals

in using and transforming
our core resources

Our core resources

Financial capital consists of shareholder's equity and funding from investors and clients that is used to support business and operational activities, including credit extension.

Manufactured capital consists of the business structure and operational processes, including physical and digital infrastructure, products and IT estate. It provides the framework and mechanics of how Mercantile does business.

Human capital comprises Mercantile's people, investing in their development and collective knowledge, skills and experience to enable innovative and competitive solutions for clients.

Intellectual capital consists of research and development, innovative capacity, reputation and strategic partnerships.

Social and relationship capital encompasses corporate citizenship and strong stakeholder relationships, including the communities Mercantile serves. Mercantile recognises that banks play an important role in building an economically thriving society.

Natural capital is made up of Mercantile's positive or negative impact on natural resources through its operations and business activities.

8.5%
ROE

12
business centres countrywide

561
employees

49.7 million
transactions for the 14 month period

84%
of clients were satisfied with our service

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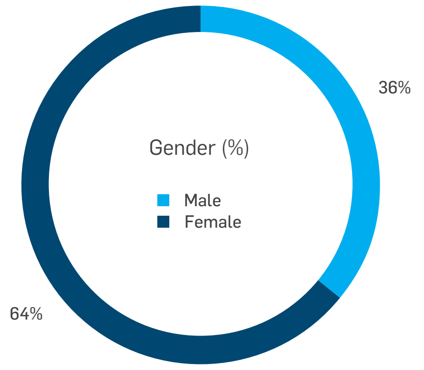
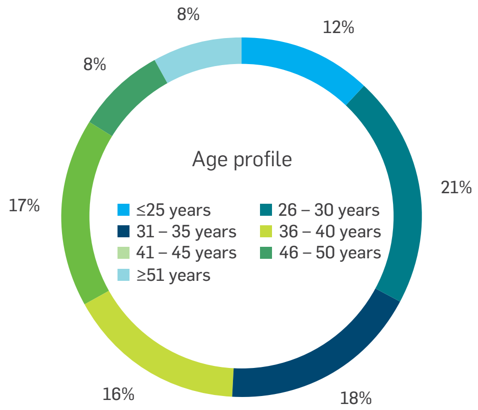




Mercantile's employees

The Mercantile culture and values are key to how it does business with all stakeholders. What differentiates Mercantile from competitors is their focus on relationship banking that exemplifies service excellence and tailor-made solutions to serve the banking needs of clients. This is achieved through the dedication and commitment of employees.

Focused training and development programmes for employees create sought-after business bankers that explore solutions and opportunities to assist entrepreneurs to achieve their business objectives.

Employee value proposition

Mercantile values its employees. Their contributions are recognised and rewarded accordingly. Employees can engage with management at all levels for guidance in terms of career aspirations. Mentors are appointed to help employees on their career journeys, if requested.

Employee benefits offered include:

- Group life benefits (life and disability cover)
- Medical aid cover
- Discounts on loan interest
- Funeral cover
- Employee wellness programmes
- Bursary scheme for employees
- Retirement planning
- Health and wellness days

Workforce profile*

	Male				Female				Foreign nationals		
Occupational levels	**African**	**Coloured**	**Indian**	**White**	**African**	**Coloured**	**Indian**	**White**	**Male**	**Female**	**Total**
Top management	0	0	0	1	0	0	0	1	0	0	2
Senior management	1	2	1	9	2	1	3	2	0	0	21
Middle management	17	8	17	26	16	9	11	31	0	0	135
Junior management	63	19	14	11	134	42	23	46	0	0	352
Semi-skilled	3	0	0	0	16	4	0	4	0	0	27
Unskilled	3	0	0	0	1	0	0	0	0	0	4
Total permanent	87	29	32	47	169	56	37	84	0	0	541
Temporary employees	0	1	0	0	1	0	0	0	0	0	2
Grand total	87	30	32	47	170	56	37	84	0	0	543

* *Data as per the Equity Report submitted to the Department of Labour for the period October 2018 to September 2019, as per the Department's statutory requirements.*

Talent acquisition

Mercantile considers employees' views, and encourages them to share their ideas as business objectives are reviewed.

Mercantile is committed to achieving employment equity through transforming its demographic profile to reflect the communities in which it operates. Mercantile emphasises investment in employee development across the full spectrum of skills. Talent attraction and retention is a priority to ensure Mercantile's transformation goals are achieved in relation to the employment equity plan.

Mercantile employed 65 people during the past year. Mercantile's employee value proposition includes an environment that is focused on upskilling and offering stretch assignments.

Talent retention

Mercantile's talent philosophy drives the identification of potential and focused development programmes to assist employees reach their career aspirations, in support of the business strategy.

Annual talent reviews identify development opportunities for employees to participate in various leadership development programmes. These are hosted internally or through BANKSETA opportunities, and include business banking programmes, stretch assignments and learnership programmes.

Mercantile employees benefit from:

- Personal growth through exposure to various aspects of banking
- Being valued and recognised for contributing to Mercantile's goals
- Team spirit and sharing knowledge

Retention challenges include:

- Well trained employees are in high demand
- Young employees not building a skills foundation

Despite retention challenges, the employee turnover rate for the current year is 7.5%.

Talent development

Mercantile strives to expand the knowledge and competencies of employees to align with new skills in banking and to improve productivity. This ensures the delivery of preferred business banking solutions through a relationship-focused service model. The aim is to attract and retain clients through a skilled and competent banking workforce. Mercantile contributes to unemployed youth through training opportunities within the workplace and with learnership programmes to improve their mobility and career prospects.

Skills development is aimed at existing and new talent. The development and achievement of the training plan indicates that employees integrated and achieved all their learning on-boarding milestones to fulfil their role.

A substantial number of employees benefited from internal and external training programmes, as reflected in the skills development statistics schedule below.

Understanding and applying work processes and product knowledge remains a core focus. Mercantile emphasises the benefit of on-the-job learning and coaching to employees.

Mercantile believes that appreciating entrepreneurs is a necessary building block in living up to delivering banking solutions. Entrepreneurial talent, technical business banking skills and high-quality service are fundamental focus areas for equipping a larger sales force through the design and implementation of the business banker curriculum.

Training category	Number of EE employees trained	Number of employees trained
Changing client expectations development	60	63
Management, leadership and change management	20	21
Risk management with a key focus on cyber security	3	3
Regulatory compliance	40	75
Bursaries	34	35
In-house compulsory training i.e. code of conduct, anti-bribery and corruption, general fraud awareness etc.	397	502
Fraud masterclasses	200	243
BANKSETA Kuyasa learnership hosted	5	5
Internal audit technician learnership	3	3
Sales learnership	14	15
Banker curriculum	12	13

* *This table includes training conducted during the past 14 months to end February 2020.*

Mercantile enhances leadership behaviour through a first-line leadership training programme for newly appointed managers and team leaders.

Developing and investing in the unemployed youth is key for Mercantile's learnership programmes, where learners are equipped with a qualification and practical work experience. During the year, learners were retained in permanent job opportunities and 3 further learnerships were implemented. This will create a talent pipeline for Mercantile and the commercial banking environment, with retention levels as an indicator of success.

Mercantile strives to be a learning organisation. It awards bursaries to eligible employees for tertiary qualifications through the study funding scheme. Mercantile awarded bursaries to 34 employees. 2 students who are completing their qualifications to become chartered accountants were sponsored and Mercantile provided vacation work opportunities.

Information and data are increasingly at risk. Mercantile increased cyber security awareness through compulsory e-learning and compliance awareness training.

Talent management

Mercantile has a robust process where talent development requirements and succession planning discussions are held. Through the process, employees are nominated for development programmes, such as the leadership programme, participating in the business banking curriculum and other development programmes or assignments.

Performance management

Performance management is well embedded within Mercantile's culture. A systematic process translates the strategic objectives into individual deliverables. Employees are measured on agreed deliverables and living Mercantile's values.

Looking forward

Capitec welcomes Mercantile as a partner who does business according to the same fundamentals that made Capitec successful in the retail banking sector. Capitec's plan is to grow Mercantile into Capitec's business bank. Small businesses need a no-frills digitally led banking solution. The acquisition of Mercantile will fast track Capitec's objective to expand its focus and increase scale.

Strategy and leadership teams

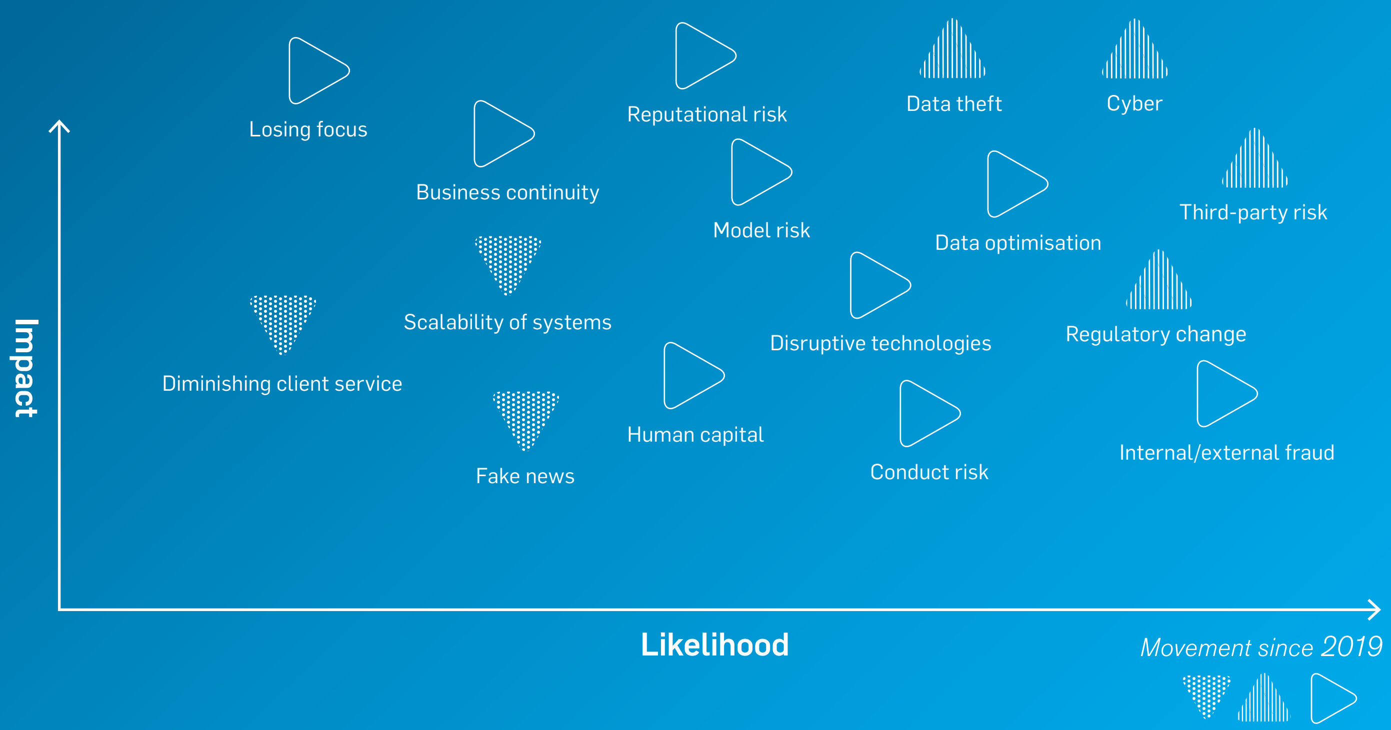
why
we have a strategy

pg 64

We want to ensure that we create value and live our purpose.

Our implementation

For effective implementation we mitigate and manage 16 strategic risks



how
we measure success

pg 02

We link performance to remuneration to ensure that we are all strategically aligned.

Our Indicators

We delivered sustainable growth in a challenging economic environment

R6.28 billion
headline earnings

19%
improvement on last year

what
we want to achieve

pg 64

We have **6 strategic objectives** to create value.

01 **Data**
We want to evolve to a trusted data bank

02 **Business Delivery**
We want to deliver optimally, with accountability and predictably

03 **Client Quality**
We want to grow quality clients

04 **People**
We want to develop people and great leaders

05 **Digital**
We want to become the number 1 digital bank

06 **Client Experience**
We want to create better banking through exceptional experiences

Our strategic objectives

Every year the EXCO runs strategic workshops to review our objectives with input from a wide range of employees. We then define our medium to long term intent. Once we have set our objectives we run a collaborative business planning and budgeting process. We ask questions such as "how will we fund our plan" and "what are the initiatives that we need to achieve our objectives" per divisional area. We measure the agreed plans continuously through integrated KPIs for teams and individuals, linking performance to remuneration. This ensures that we are all aligned and everyone knows exactly what is expected.

Client quality

Grow quality clients by focusing on client optimisation, cross-selling of products and improvement of transactional behaviour.

Key products:

- Access facility
- Purpose lending
- New insurance offerings

Client experience

- Drive better banking behaviour through personalised, interactive, real-time digital communications on any relevant channel, from anywhere and at any time
- Exceptional experience: drive brand loyalty and advocacy through consistently delightful, omni-channel, client service and digital experiences
- Clear brand promise: build a world-class brand that is salient, meaningful and clearly differentiated
- Make a difference: enable people to improve their financial lives through the Capitec Foundation maths literacy for scholars, and financial health support to our clients

People

- Develop and enable great leaders
- Develop a learning organisation
- Diversity and inclusivity: establish an environment in Capitec that is increasingly more diverse and inclusive
- Employee engagement: to have engaged employees

Digital

- Become the number 1 digital bank: deliver a personalised digital banking experience that provides accessibility to all of Capitec's products and services through our app and where technologically possible, USSD
- Dominate digital payments
- Become a super app: create digital client experiences with unique financial health, convenience or benefit experiences through our app

Data

- Build a cloud-first data infrastructure that provides for all internal and external clients' data needs
- Embed data governance to ensure a trusted data estate
- Protect and build client trust in Capitec's data estate, enabling Capitec to evolve to a data bank
- Deliver leading analytics and modelling capabilities to support insight-driven decisions and personalised client engagements

Business delivery

- Foster a culture of accountability for delivery
- Standardise, scale and mature our way of working practices, organisational structures and capacity to deliver in a fast-changing environment
- Deliver the book of work more predictably within optimal capacity utilisation
- Increase the throughput of total initiatives delivered year-on-year by 20% across all portfolios

Leadership teams

Our leaders balance the need for profitable growth with the well-being of Capitec's shareholders. They are the custodians of Capitec's future.

Non-executive directors

Michiel Scholtz du Pré le Roux (70)
BComm LLB, DComm (hc)

Michiel was chairman of Capitec and Capitec Bank from 2007 until 31 May 2016 when he stepped down. He continues to serve on the board as a non-executive director. He was the bank's CEO until 2004. Michiel was appointed to Capitec's board on 1 March 2001 and to Capitec Bank's board on 6 April 2000.

Nonhlanhla Sylvia Mjoli-Mncube (61)
BA, MA (City and regional planning)

Nonhlanhla served on the boards of Capitec and Capitec Bank from 26 January 2004 until 31 May 2019.

Petrus Johannes Mouton (43)
BComm (Maths)

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

Piet was appointed to the boards of Capitec and Capitec Bank on 5 October 2007.

Chris Adriaan Otto (70)
BComm LLB

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

Chris was appointed to the boards of Capitec and Capitec Bank on 6 April 2000.

Riaan Stassen (66)
BComm (Hons), CA(SA)

Riaan joined Capitec Bank as managing director in 2000 and served as CEO of Capitec and Capitec Bank from March 2004 until his retirement on 31 December 2013. He succeeded Michiel le Roux as chairman of the boards on 1 June 2016.

Riaan retired from the boards on 31 May 2019.

Independent non-executive directors

Susan Louise Botha (55)
BEcon (Hons)

Chairman of the boards and the directors' affairs committee

Santie was appointed as the chairman of the boards of Capitec and Capitec Bank effective 1 June 2019. She served as an executive director of MTN Group (2003 to 2010) and Absa Bank (1996 to 2003). She is the chairman of Curro Holdings and Famous Brands and a non-executive director of Telkom. She also serves as a member of the advisory board of Accenture (South Africa). Santie received a number of awards, including Business Woman of the Year (2010) and Top 100 Most Reputable Africans (2018).

Santie was appointed to the boards of Capitec and Capitec Bank on 1 June 2019.

Lindiwe Angela Dlamini (50)
BA (Law), LLM (Tax Law)

Lindi served on the boards of Capitec and Capitec Bank from 6 April 2017 until 30 June 2019.

Thetele Emmarancia Mashilwane (44)
BComm (Hons), CA(SA), RA, MBA

Emma is the cofounder and CEO of Masa Risk Advisory Services. Her previous positions include CFO at Carl Zeiss Optronics, head of internal audit at Nkonki Incorporated, senior manager at KPMG and CFO at Masana Technologies. She serves on the boards of Tiger Brands and Famous Brands.

Emma was appointed to the boards of Capitec and Capitec Bank on 6 March 2020.

Kabelo Makwane (43)
BComm

Chairman of the social and ethics committee

Kabelo is managing executive: cloud, hosting and security at Vodacom Business Africa. Previously he was managing director of Accenture (2016 to 2019) and managing director of Microsoft, Nigeria (2013 to 2016), which he successfully developed into a standalone subsidiary of Microsoft Corporation. He gained extensive experience in IT and sales during his career at Storgate Africa (2001), Datacentrix (2001 to 2003), Unisys (2004), Cisco Systems (2004 to 2009) and Microsoft South Africa (2009 to 2013).

Kabelo was appointed to the boards of Capitec and Capitec Bank on 6 April 2017.

John David McKenzie (73)

BSc (Chemical Engineering), MA

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

Jock serves on the boards of a number of companies. He was the chairman and CEO of Caltex Petroleum Corporation until 2001. He was extensively involved in the merger of Caltex, Chevron and Texaco and was president – Asia, Middle East and Africa of Chevron-Texaco until 2004. Between 1997 and 2003 he was a member of several advisory boards in Singapore, including the American Chamber of Commerce.

He was the founding president of the South Africa – Singapore Business Council and a member of the Singapore Economic Development Board. Since 2004 he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as the chairman of the Commission of Inquiry into the Singapore Electricity and Gas Supply Systems. In South Africa, he has consulted for, among others, Sasol, the South African Petroleum Industry Association's investigation into the impact of the global economic crisis on the South African oil industry and other related topics. He currently serves on the board of Coronation Fund Managers and is the chairman of the Carleton Lloyd Educational Trust and the Rondebosch Schools Education Trust.

Jock was appointed to the boards of Capitec and Capitec Bank on 1 March 2012.

Daniel Petrus Meintjes (63)

BPL (Hons) (Industrial Psychology), AMP

Chairman of the human resources and remuneration committee

Danie served as CEO of the Mediclinic group from 2010 up to his retirement on 1 June 2018. He currently serves as a non-executive director on the board of Mediclinic International. Danie joined the Mediclinic group in 1985 as a hospital manager. He was appointed as a member of Mediclinic's executive committee in 1995 and as a director in 1996. He was seconded to serve as a senior executive of the Mediclinic group's operations in Dubai in 2006 and appointed as CEO of Mediclinic Middle East in 2007. He served as a non-executive director of the Spire Healthcare Group from 2015 up to his retirement in May 2018.

Danie was appointed to the boards of Capitec and Capitec Bank on 28 November 2018.

Jean Pierre Verster (39)

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

Chairman of the audit committee

Jean Pierre is the founder and CEO of Protea Capital Management. He partnered with Fairtree Asset Management in 2016 to launch the Protea range of hedge funds. Previous portfolio manager positions include 36ONE Asset Management from 2010 to 2016 and Melville Douglas Investment Management. Prior to that he was credit and corporate research analyst at Standard Bank's Global Markets Research division. In 2006, he gained experience as an internal auditor in the retail banking environment after he had started his career in 2005 as a financial manager in the insurance services environment.

Jean Pierre was appointed to the boards of Capitec and Capitec Bank on 23 March 2015.

Executive directors

Gerhardus Metselaar Fourie (56)

BComm (Hons), MBA

CEO

Gerrie was head: operations at Capitec Bank from 2000 until his appointment as CEO of Capitec and Capitec Bank effective 1 January 2014. He started his career at Stellenbosch Farmers' Winery in 1987 in the financial planning department and was later appointed as the area general manager of KwaZulu-Natal and later Gauteng. He serves on the Mastercard MEA advisory board as well as on the boards of Creamfinance and Mercantile Bank. Gerrie was named the 2019 Business Leader of the Year at the *Sunday Times* Top 100 Companies Awards.

Gerrie was appointed to the boards of Capitec and Capitec Bank on 20 September 2013.

André Pierre du Plessis (58)

BComm (Hons), CA(SA)

CFO

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

André was appointed to the boards of Capitec and Capitec Bank on 2 May 2002.

Nkosana Samuel Mashiya (44)

MComm (Economics)

Executive: risk management

Nkosana joined Capitec Bank on 1 November 2015. He was the deputy registrar of banks at the SARB from 2011. He was responsible for the policy framework to guide the prudential supervision and regulation of the financial conglomerates in South Africa since 2014 and was acting managing director of the Co-operative Banks Development Agency since 2011. Previously he worked at the National Treasury as chief director: international finance (2010 to 2011), chief director: financial sector development (2006 to 2010) and director: banking development (2002 to 2006).

Nkosana started his career as a lecturer at the University of Johannesburg (1998 to 2001). He later moved to the University of Natal as a lecturer (2001 to 2002) before joining National Treasury.

Nkosana was appointed to the boards of Capitec and Capitec Bank on 1 June 2016.

Company secretary

Yolande Mariana Mouton (53)

BSc (Hons), MSc

Yolande joined the Capitec group in 2000 and served as assistant company secretary from 2001 until November 2015 when she was appointed as company secretary of the Capitec group.

Executive committee

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

Jacobus Everhardus Carstens (51)

BCompt (Hons), CA(SA)

Executive: credit

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

Willem de Bruyn (49)

BSc (Hons) (Computer Science)

Executive: IT

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

Hendrik Albertus Jacobus Lourens (54)

BComm (Hons), CA(SA)

Executive: operations

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

Nathan Stephen Tlaweng Motjuwadi (53)

BA (Hons), UED, MBA

Executive: human resources

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

André Olivier (52)

BComm (Hons), CA(SA)

Executive: business development

André joined Capitec Bank in 2000 and has been responsible for business development ever since. He was the financial risk manager at Boland PKS, after which he was head of operations for Pep Bank, in the bank's microlending division (1997 to 2000). He gained audit and business advisory experience with Arthur Andersen.

Leonardus Venter (58)

BA (Hons), MA (Industrial Psychology)

Executive: business support centre

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

Francois Viviers (37)

BComm (Hons)

Executive: marketing and communications

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

There are 2 development seats on the EXCO to provide senior employees with the opportunity to gain experience at an executive level. The incumbents rotate annually. The seats were filled by Anbann Chetti, co-head: financial management and Wilhelm Koster, head: credit client strategy during the 2020 financial year. The development members for the 2021 financial year are Thozama Ngqakayi, Manager: Complaint Management and Jacqui Richardson, Manager: Project Management Office.

All the directors of Capitec and Capitec Bank have been appointed to the board of Mercantile Bank as an interim measure until Mercantile Bank is integrated into Capitec Bank. The integration has commenced and will be concluded by October 2021.

Celebrating our awards

We are recognised for how we do business. We do not target awards, or measure our success based on them. However, we acknowledge the recognition of our efforts. We value this as a confirmation of our strategy and continued focus on doing what is in the best interest of our clients.

Best overall satisfaction score from SAcsi

Capitec maintained the best overall customer satisfaction score for the sixth consecutive year, according to the latest South African Customer Satisfaction Index (SAcsi) for banking, conducted by Consulta.

The survey is the largest and most comprehensive survey of its kind for the banking sector on a national basis. It surveys 15 542 consumers from lower, middle and upper retail banking segments. The SAcsi is a causal model that links customer expectations, perceived quality, and perceived value to customer satisfaction (the SAcsi score), which in turn is linked to customer complaints (and recovery), and customer loyalty intentions.

March 2019

Capitec CFO honoured

Capitec chief financial officer (CFO) Andrè du Plessis received the Compliance and Governance Award and the Finance and Technology Award at the 2019 CFO awards. These awards recognise the top CFOs of listed companies, large corporations, state-owned entities and government institutions in South Africa.

He was also selected as the winner of the All Africa CFO of the year award in the 2019 All Africa Business Leaders Awards (AABLA™). The AABLA™ is announced in partnership with CNBCAfrica and presented by Lancaster University Ghana. It is an empowerment initiative intended to distinguish and uphold the achievements of inspiring corporate front-runners on the African continent.

May 2019 and December 2019

#1 SITEisfaction® survey

Capitec shared 1st place as South Africa's Best Digital Bank. We have been consistently rated either 1st or 2nd since the measure was introduced in 2012. The SITEisfaction® survey is an annual measure of customer satisfaction with digital banking services in South Africa measured for internet banking via a web browser and smartphone app banking. The combined score from these 2 channels defines the digital banking category.

July 2019

We employ the Marketer of the Year

Francois Viviers, executive: marketing and communications at Capitec Bank, won the Marketer of the Year Award 2019 at the inaugural Marketing Achievement Awards. The awards celebrate the best of the best in South African marketing and aim to future-proof the sector and raise the bar for local marketers.

July 2019

Capitec is the *Sunday Times* Top 100 Company of the Year

Capitec was named as the *Sunday Times* Top 100 Company of the Year for the 2nd year running, based on the performance of our share price on the JSE over 5 years. Capitec also received the Sunday Times award for Best Online Bank – 1 of 8 new categories introduced in 2019. The survey, conducted by Kantar on behalf of Tiso Blackstar Group and *Sunday Times*, is considered the leading barometer of consumer sentiment towards brands in the country.

November 2019

Business leader of the Year

Capitec chief executive officer (CEO) Gerrie Fourie was named 2019 Business Leader of the Year at the *Sunday Times* Top 100 Companies Awards. The award is decided by the CEOs of *Sunday Times* Top 100 Companies from previous years.

November 2019

Governance oversight

why we have governance

pg 73

We want to ensure that we create value and live our purpose.

Our approach

We apply and explain our arrangements to implement the King IV principles

Our governance structures

We achieve the 4 outcomes:

- ethical culture
- good performance
- effective control
- legitimacy

how
we govern

pg 74

Our internal governance structures adhere to the 4 core Capitec fundamentals and the 4 Mercantile relationship pillars in all decisions to drive ethical behaviour.

what
do we govern

pg 82

Our **5 risk categories**

The group can suffer a loss if a client or other counterparty fails to meet its financial obligations. This is defined as credit risk. Our credit risk primarily arises from retail credit lending.

Credit risk

pg 86

If we are unable to run the business because of an external event or if an internal process failed, Capitec will experience losses. This constitutes operational risk. We rely on people and systems to operate effectively and efficiently.

Operational risk

pg 90

Changes in our share price, interest rates or exchange rates can affect our financial position as a group. These changes can increase or decrease the value of our assets or liabilities. This constitutes market risk.

Market risk

pg 91

If a client needs to access their savings or a funder requires repayment, we need to be able to honour our commitments as a bank. Not having cash available can results in losses. This constitutes capital and liquidity risk.

Capital and liquidity risk

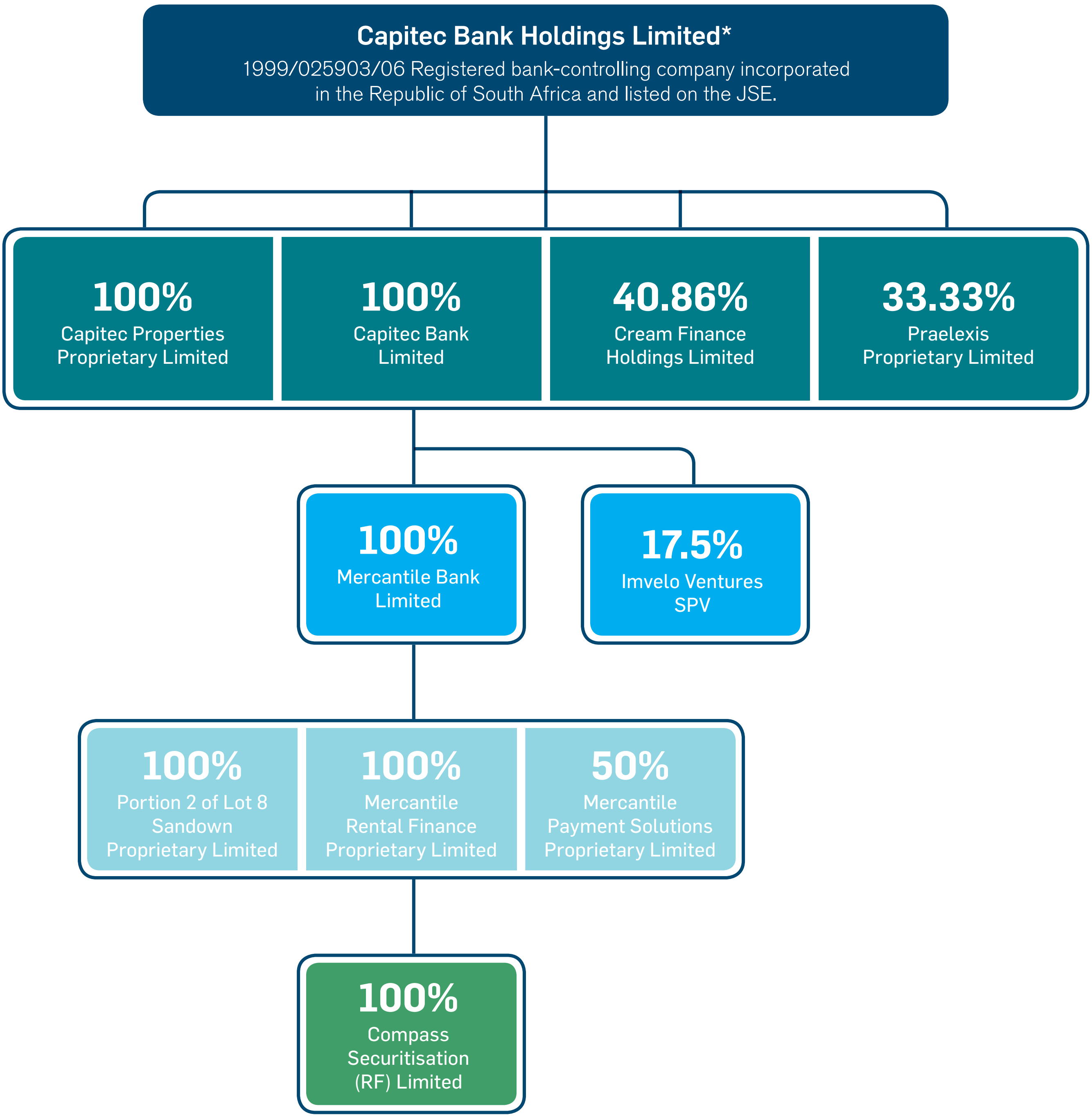
pg 93

Our reputation relies on the perception of clients, investors, employees and regulators. Their perceptions and expectations can have a positive or negative impact on future earnings or our ability to raise capital. This constitutes reputational risk.

Reputational risk

pg 98

Group structure



* *Excluding dormant companies and companies in liquidation.*

Good governance

We lead by example. The principles of simplicity and transparency strengthen control and underpin our corporate governance approach. This ensured a solid foundation in a year where economic pressures undermined the growth of many companies and South African institutions remained under intense scrutiny by the market.

- We complied with the laws of establishment, Capitec's memorandum of incorporation and the Companies Act, Act 71 of 2008, as amended (Companies Act).
- We applied the King IV principles, explained our arrangements on our website and made the related disclosures in this report. The online register in the investor centre on www.capitecbank.co.za contains a summary and references.
- Our risk management approach and arrangements are set out in the risk management report on page 82.

Maintaining an ethical culture

Our working environment demands high ethical standards and our rules apply equally to all, regardless of position. Ethical practices pervade our business dealings and our interactions with stakeholders.

Capitec's code of ethics, supported by a range of policies that guide employees on ethical conduct, set common ethical standards to promote consistency in behaviour across all levels of employment. These policies are available on the company's intranet. Employees are encouraged to live out the Capitec Way behaviours: to act with energy, take ownership and put the client first. This is done by challenging upwards and downwards to ensure robust decision-making and by reporting suspicious behaviour to management. Employees can also use Tip-offs Anonymous – the contact details are on the company's intranet.

The social and ethics committee monitors ethical behaviour by the company and its employees. No material ethical breaches were reported this year. The committee's report can be found on page 130.

Measuring good performance

The Capitec Way is to create ownership and use measurement to facilitate improved performance. Management identifies issues quickly at twice-weekly meetings and acts accordingly. Our board approves the business plan for each year and tracks performance against key indicators at each board meeting.

Our performance track record supports this: we have been creating value for our stakeholders since Capitec was established in 2001. This was confirmed when Capitec Bank was named as the 2019 *Sunday Times* Top 100 Company for the second year running.

Ensuring effective control

Best governance practice and management requirements direct us to implement control measures and report accordingly. The board is ultimately responsible for effective control through its committee structure and approved policies, supported by the MOS and the collaborative risk, compliance and internal audit functions.

Our ability to identify the correct data and report accordingly to the respective board committees provides the board with the comfort that they have oversight of data they can trust.

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

Maintaining legitimacy

To strengthen our drive to improve people's financial lives and make banking better, we foster strong relationships with all contributing stakeholders. We interact with regulators to find industry solutions and meet with investors to help them understand our performance.

In our branches, we greet clients with a handshake and do regular surveys and data analyses to get to know them better. This helps us make banking simple, accessible and affordable. Our management team members spend time in the branches talking to clients. They track complaints and monitor social media to garner insights into what people say about Capitec.

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

The directors' affairs committee (DAC) is tasked with monitoring corporate governance and there were no material breaches during the year. The key focus for the past financial year was board succession planning with the aim to improve independence on the board.

Responsibility for overall stakeholder engagement resides with the EXCO, who relies on different functions to engage with specific stakeholders. The social and ethics committee carries governance responsibility for monitoring relationships with stakeholders. Our stakeholder group remains constant, but the topics of engagement change every year based on our operating environment and client offering.

Our board

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

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

- act in good faith towards the Capitec group;
- avoid conflict between their other interests and the interests of the Capitec group; and
- place the interest of the Capitec group and its depositors above all other interests.

Directors are required to disclose matters that may potentially result in a conflict of interest. A declaration of interest is circulated for sign-off by each director at all board meetings. No director may offer a service, product or cooperation agreement to the group on behalf of any organisation in which they have a direct or indirect interest at a meeting of the board or its committees. Such service, product or agreement may be offered to the management of the company, by the management of the related organisation. If a decision to acquire the service or product or conclude the agreement is ultimately referred to the board, concerned directors are required to recuse themselves.

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

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

Our board takes full responsibility as the governing body of Capitec and is satisfied that it fulfilled its responsibilities in accordance with its charter, King IV, the JSE Listings Requirements, the Companies Act and applicable statutory and regulatory requirements for the financial year.

How the board functions

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

At the core of our success is effective and ethical leadership provided by an experienced and skilled board of directors and EXCO.

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

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

Our board-approved delegation of authority framework consists of charters and policies. Detailed roles and responsibilities, as well as authority limits, have been assigned to individuals and committees. The board has confirmed, based on the recommendation of its subcommittees and reports provided by management, the internal and external auditors, and policies and procedures implemented at Capitec, that it is satisfied that internal controls are appropriate and that the duties of employees are sufficiently segregated to support the strength of internal controls. The board further confirmed its satisfaction that it has fulfilled its responsibilities in accordance with its charter.

Board composition and diversity

We support the principle of diversity to enhance the board's perspective. The composition of the board is reviewed continuously by the directors' affairs committee to facilitate an appropriately diverse board, including a relevant range of expertise, experience, industry knowledge, age, gender, race and culture. The directors' affairs committee set the following targets for gender and race diversity in the 2021 financial year:

	FY20 Target	Actual	FY21 Target
Race diversity	25%	25%	35%
Gender diversity	10%	17%	25%

Read more about the diversity in skills and experience of our board members in the profiles from page 65.

The board appointed Susan Louise (Santie) Botha and Thetele Emmarancia (Emma) Mashilwane during the year (although Emma's appointment only became effective on 6 March 2020). Directors are appointed according to a policy that prescribes a transparent process. The directors' affairs committee, under leadership of the chairman, presides over board appointments. When specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction and subject to the Prudential Authority not objecting to the appointment, the individual is approached and formally appointed. Shareholders have the opportunity at the AGM, following the appointment of a new director, to endorse or veto the appointment.

The directors' affairs committee considered the following attributes in its deliberation of prospective nominations to the board: A need for business acumen and increased technical expertise such as banking risk, information technology and chartered accountants. In addition, the board wished to appoint more women to the board and increase racial diversity. The appointments of Santie and Emma fulfil these attributes for appointment to the boards.

Newly appointed board members are formally inducted through a programme comprising reading, interviews with the various divisional heads and exposure to bank operations, such as visits to call centres and branches. All board members have an open invitation to attend training presented by the Gordon Institute of Business Science (GIBS) and ad hoc training is presented in-house from time to time. Presentations are aimed at enhancing directors' insights into developments at the bank, and legislation and regulations that affect the group. The new directors will attend the banking board leadership programme, which is presented by GIBS in 2020.

The board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience and diversity, and that the board and its respective committees function effectively. The board nevertheless continuously reflects on its composition to ensure it has the required qualities to facilitate appropriate supervision.

Board performance and independence evaluations

The effectiveness of the board is managed throughout the year and any areas of concern are addressed as they arise. The board and its various committees are also assessed annually via an internally conducted formal process. Individual directors' performance is evaluated by the chairman of the board on an ongoing basis throughout the year to ensure that requisite action is taken timeously when concerns arise.

The results of the assessment for the 2020 financial year indicated that the board may be strengthened by additional technical and banking risk expertise as guidance in the future composition of the board. The board is satisfied that it continues to function well and that the evaluation contributes to continuous improvement of the board's performance and effectiveness.

The independence of non-executive directors and factors that may impair their independence are evaluated annually. The board is satisfied that the independence of Santie Botha, Kabelo Makwane, Jock McKenzie, Danie Meintjes and Jean Pierre Verster remain unaffected. Emma Mashilwane's independence is unfettered and there is no relationship or interest that affects her independence.

The chairman

We have an independent chairman and a lead independent director. The lead independent director's role is determined by the board charter. According to the charter, the lead independent director, among others, provides leadership in situations where the chairman is deemed to have conflicting interests and he leads the performance appraisal of the chairman. A board-approved policy specifies how we ensure a balance of power and authority at board level. No one individual has unfettered decision-making powers.

The chief executive officer

Our CEO is appointed by the board. He is responsible for leading the EXCO in formulating and developing the group objectives and implementing the strategies approved by the board. The roles and duties of the chairman and the CEO are separated.

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

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

Company secretary

Yolande Mouton is the company secretary of the Capitec group. The company secretary acts as a conduit between the board and the organisation and is responsible for board administration, liaising with the Companies and Intellectual Property Commission (CIPC) and the JSE Limited and providing corporate governance services to the board. Board members have access to legal and other independent professional expertise when required and at the cost of the group through the company secretary.

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

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

Board committees

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

All committees comprise at least 3 members, are chaired by independent non-executive directors and include a minimum of 2 independent non-executive directors so as to enable the appointment of a lead independent director under circumstances where the chairman of a committee becomes conflicted on a specific matter or non-independent for a period of time. All board members are welcome to attend committee meetings, although they do not have voting rights in committees of which they are not members. The following committees, comprising directors and executives, are in place to deal with specific risks facing the group in a structured manner and in accordance with board-approved charters.

Attendance of board and committee meetings – Retail banking

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

Committee	Board	Audit committee	Directors' affairs committee	RCMC	REMCO	Social and ethics committee
Number of meetings	**6**	**3**	**2**	**4**	**2**	**2**
SL Botha(4)	4	2(1)	2	3(1)	2	0
LA Dlamini(5)	2	1(1)	0	0	0	1
AP du Plessis	6	3(1)	0	4	0	0
MS du Pré le Roux	6	3(1)	2	0	2	0
GM Fourie	6	3(1)	0	4(1)	2	0
K Makwane	5	3	2	0	0	1
NS Mashiya	6	3(1)	0	4(1)	0	2
JD McKenzie	6	3	2	4	2	0
DP Meintjes(6)	5	1(1)	1	1	2	1
NS Mjoli-Mncube(3)	2	1(1)	0	0	0	0
PJ Mouton	6	2(1)	2	4	0	0
CA Otto	6	3(1)	2	4	2	0
R Stassen(2)	2	1(1)	0	0	0	0
JP Verster	6	3	2	4	0	0

(1) *Attendance by invitation.*
(2) *Mr Stassen retired from the board on 31 May 2019.*
(3) *Ms NS Mjoli-Mncube retired from the board on 31 May 2019.*
(4) *Ms Botha was appointed to the board on 1 June 2019.*
(5) *Ms Dlamini resigned from the board on 30 June 2019.*
(6) *Mr Meintjes resigned from the RCMC on 14 October 2019 and was appointed as a member of the social and ethics committee on the same date.*

Audit committee

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • JP Verster (chairman) • TE Mashilwane (from 6 March 2020) • JD McKenzie • K Makwane (until 5 March 2020) **Management attendees** • AP du Plessis • GM Fourie • NS Mashiya • M Palmieri (compliance) • D Flannery (internal audit) **By invitation** • All directors • External auditors **Quorum** At least 50%, but not fewer than 2 members	• The audit committee considers the combined assurance arrangements with focus on internal audit, compliance and external audit. • The audit committee evaluates the adequacy and efficiency of the internal control systems accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of their business. • The committee evaluates the going-concern status of the group. • The committee considers the continuous independence of the external auditors. • The committee considers the integrity of the annual financial statements and the sustainability matters forming part of the integrated annual report. • The audit committee report, dealing with the requisite disclosures, is included in the annual financial statements. • The audit committee reviewed the annual financial statements for correctness and recommended these for approval by the board.	Consolidation of Mercantile in the group financial statements. The audit committee is satisfied that it has fulfilled its responsibilities according to its charter for the year.

Directors' affairs committee (DAC)

Composition	Purpose	2020/2021 focus areas
• SL Botha (chairman) • All non-executive directors **Quorum** At least 50%	• The DAC monitors the effectiveness of corporate governance. • The DAC deals with matters relating to the nomination of new directors, according to a board-approved policy. • The DAC deals with the evaluation of the performance of the board and its committees.	Increased gender and race diversity. The DAC is satisfied that it has fulfilled its responsibilities according to its charter for the year.

Risk and capital management committee (RCMC)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • JD McKenzie (chairman) • JP Verster **Non-executive directors** • PJ Mouton • CA Otto **Executive director** • AP du Plessis **Quorum** At least 50%, but not fewer than 2 members	• The RCMC assists the board in evaluating the adequacy and efficiency of the risk and capital management systems and processes and the significant risks facing the group. • The RCMC monitors that risk assessment is performed continuously. • The chairmen of the audit committee and the RCMC serve on the respective committees to facilitate increased effectiveness of the respective functions. • The RCMC monitors risk management in the group.	Integration of Mercantile Market conduct The RCMC is satisfied that it has fulfilled its responsibilities according to its charter for the year.

Human resources and remuneration committee (REMCO)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • DP Meintjes (chairman) • SL Botha • JD McKenzie **Non-executive director** • CA Otto **Management attendees** • GM Fourie • NST Motjuwadi **By invitation** • MS du Pré le Roux **Quorum** At least 50%, but not fewer than 2 members	• The REMCO ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act and its regulations. • The REMCO ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders.	The REMCO is satisfied that it has fulfilled its responsibilities according to its charter for the year.

Social and ethics committee

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • K Makwane (chairman) • DP Meintjes **Executive director** • NS Mashiya **Quorum** At least 50%, but not fewer than 2 members	• The social and ethics committee monitors activities relating to social and economic development, good corporate citizenship and the environment, to promote the collective well-being of society, thereby facilitating the sustainable growth of the group. • The social and ethics committee tracks the impact of the group's activities and service, with specific focus on client and employee relations.	Transformation The social and ethics committee is satisfied that it has fulfilled its responsibilities according to its charter for the year.

Large exposures committee

Composition	Purpose
RCMC **Management** • JE Carstens • GM Fourie • NS Mashiya **Quorum** Majority of members Meets as required	The committee approves credit exposures in excess of 10% of bank capital on an ad hoc basis, as may be required.

Executive committee (EXCO)

Composition	Purpose	2020/2021 focus areas
As per page 67; and the 2 annually elected development members **Quorum** At least 3 of the following: CEO, CFO, executive: risk management and executive: operations (quorum members) or replacement members as appointed by EXCO, subject to at least 2 being quorum members	• The committee conducts operational decision-making. • The committee implements board-approved strategic decisions. • The committee conducts ongoing approvals of an administrative nature. Meeting frequency Meets twice a week with an extended monthly meeting.	Integration of Mercantile Enhanced client experience

Attendance of board and committee meetings – Business banking

Committee	Audit committee	Directors' affairs committee	RCMC	REMCO	Social, ethics and transformation committee
Number of meetings	**7**	**2**	**5**	**4**	**2**
TH Njikizana[(1)]	7	2	4	3	0
L Hyne[(2)]	6	2	4	3	0
DR Motsepe[(2)]	6	2	0	3	2
AT Ikalafeng[(2)]	0	2	0	3	2
JP Verster[(3)]	2	0	2	0	0
JD McKenzie[(3)]	2	0	2	1	0
SL Botha[(3)]	0	0	0	1	0
AP du Plessis[(3)]	2	0	2	0	0
GM Fourie[(3)]	2	0	2	0	0
K Makwane[(4)]	1	0	0	0	0
CA Otto[(4)]	0	0	1	1	0
PJ Mouton[(4)]	0	0	0	0	0
DP Meintjes[(4)]	0	0	0	1	0
MEL Teixeira	7[(7)]	0	5	0	2
GP De Kock[(1)]	0	2	4	3	2
KR Kumbier	7[(7)]	0	5	0	2
RS Calico[(5)]	0	1	3	0	0
MS du Pré le Roux[(6)]	0	0	0	0	0
NS Mashiya[(6)]	0	0	0	0	0

(1) *Resigned on 5 February 2020.*
(2) *Resigned on 29 November 2019.*
(3) *Appointed on 29 November 2019.*
(4) *Appointed 7 February 2020.*
(5) *Resigned 7 November 2019.*
(6) *Appointed 14 February 2020.*
(7) *Attendance by invitation.*

Audit committee

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • JP Verster (chairman) (appointed 29 November 2019) • JD McKenzie (appointed 29 November 2019) • K Makwane (appointed 7 February 2020) **By invitation** • All directors • Internal audit • External auditors • Risk • Compliance **Quorum** At least 50%, but not fewer than 2 members	As defined in its charter, the primary objective of the committee is: • Financial control and integrated reporting • Compliance with statutory and regulatory legislation including, but not limited to, the Banks Act, Companies Act, common law, IFRS and tax legislation • Corporate governance • Risk management • Stakeholder reporting • Recommend the appointment of external auditors • Review the accounting policies, the audited annual financial statements, interim results, internal and external auditors' reports, regulatory public disclosures required in terms of the Regulations to the Banks Act • Review the adequacy and effectiveness of internal control systems • Review the effectiveness of management information systems, the internal audit process	The audit committee is satisfied that it has fulfilled its responsibilities according to its charter for the year.

TH Njikizana (chairman) (resigned 5 February 2020), L Hyne (resigned 29 November 2019), DR Motsepe (resigned 29 November 2019).

Directors' affairs committee (DAC)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • SL Botha (Chairman) (appointed 29 November 2019) • JD McKenzie (appointed 29 November 2019) • JP Verster (appointed 29 November 2019) • K Makwane (appointed 7 February 2020) • DP Meintjes (appointed 7 February 2020) **Non-executive directors** • CA Otto (appointed 7 February 2020) • PJ Mouton (appointed 7 February 2020) • MS du Pré le Roux (appointed 14 February 2020) **Quorum** At least 50% Meets at least twice per annum	As defined in its charter, the primary objectives of the DAC are to: • monitor of the appropriateness and effectiveness of corporate governance structures, processes, practices and instruments; • establish and maintain a continuity plan; • be responsible for the process of board nominations and appointments for recommendation to the board and, in so doing, review the skills, experience and other qualities required for the effectiveness of the board; • ensure that a management succession plan is in place; and • assist the board in determining whether the employment/appointment of any directors should be terminated (excluding resignations).	The DAC is satisfied that it has fulfilled its responsibilities according to its charter for the year.

GP De Kock (chairman) (resigned 5 February 2020), L Hyne (resigned 29 November 2019), DR Motsepe (resigned 29 November 2019), AT Ikalafeng (resigned 29 November 2019), RS Calico (resigned 7 November 2019).

Risk and capital management committee (RCMC)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • JD McKenzie (chairman) (appointed 29 November 2019) • JP Verster (appointed 29 November 2019) **Non-executive directors** • CA Otto (appointed 7 February 2020) **Executive directors** • AP du Plessis (appointed 29 November 2019) • MEL Teixeira **By invitation** • Internal audit • External auditors • Risk **Quorum** At least 50% Meets at least twice per annum	As defined in its charter, the RCMC's objectives are to: • assist the board to fulfil its responsibilities in the discharge of its duties relating to risk and control management, and monitoring and reporting of all risks identified and managed through the enterprise-wide risk management framework; • monitor and oversee the risk management process; • facilitate communication between the board and parties engaged in risk management activities; • ensure the quality, integrity and reliability of the group's risk management and control; • review the group's process and allocation of capital and capital management; and • provide independent and objective oversight and review of the information presented by management on risk management.	The RCMC was regarded as being effective and as taking a thorough and detailed approach to its responsibilities. The RCMC has fulfilled its responsibilities in terms of its charter during the year under review.

L Hyne (chairman) (resigned 29 November 2019), GP De Kock (resigned 5 February 2020), DR Motsepe (resigned 29 November 2019), RS Calico (resigned 7 November 2019), TH Njikizana (resigned 5 February 2020), KR Kumbier (resigned 21 February 2019).
MEL Teixeira is the financial director of Mercantile Bank.

Human resources and remuneration committee (REMCO)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • DP Meintjes (chairman) (appointed 7 February 2020) • SL Botha (appointed 29 November 2019) • JD McKenzie (appointed 29 November 2019) **Non-executive directors** • CA Otto (appointed 7 February 2020) **By invitation** • CEO and CFO **Quorum** At least 50% Meets at least once per annum	As defined in its charter, this committee's primary objectives are to: • assist the board in determining the broad policy for executive and senior management remuneration; • oversee the remuneration philosophy; • ensure alignment of the remuneration strategy/philosophy and policy with Mercantile's business strategy, risk and reward, desired culture, shareholders' interests and commercial wellbeing; • assist the board in the consideration of performance-related incentive schemes, performance criteria and measurements, including allocations in terms of the CPSP and other long-term awards; • assist the board in reviewing directors' performance against set management and performance criteria; and • assist the board in reviewing the non-executive directors' fees.	The REMCO has fulfilled its responsibilities in terms of its charter during the year under review.

AT Ikalafeng (chairman) (resigned 29 November 2019), L Hyne (resigned 29 November 2019), DR Motsepe (resigned 29 November 2019, TH Njikizana (resigned 5 February 2020).

Social, ethics and transformation committee (SETCO)

Composition	Purpose	2020/2021 focus areas
Independent non-executive directors • K Makwane (chairman) (appointed 7 February 2020) • DP Meintjes (appointed 7 February 2020) **Executive directors** • NS Mashiya (appointed 14 February 2020) • KR Kumbier • MEL Teixeira **Quorum** At least 50% Meets at least twice per annum	As defined in its charter, the SETCO's primary objectives are to monitor Mercantile's activities regarding: • social and economic development, including the goals and purposes of: – the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption; – the Employment Equity Act; and – the Broad-Based Black Economic Empowerment Act; • good corporate citizenship, including: – the promotion of equality; – contribution to development of the communities; and – sponsorship, donations and charitable giving; • the environment, health and public safety, including the impact of Mercantile's products or services; • consumer relationships, including advertising, public relations and compliance with consumer protection laws; and • labour and employment.	The SETCO has fulfilled its responsibilities in terms of its charter during the year under review.

DR Motsepe (chairman) (resigned 29 November 2019), GP De Kock (resigned 5 February 2020), AT Ikalafeng (resigned 29 November 2019).
KR Kumbier is the CEO of Mercantile Bank.
MEL Teixeira is the financial director of Mercantile Bank.

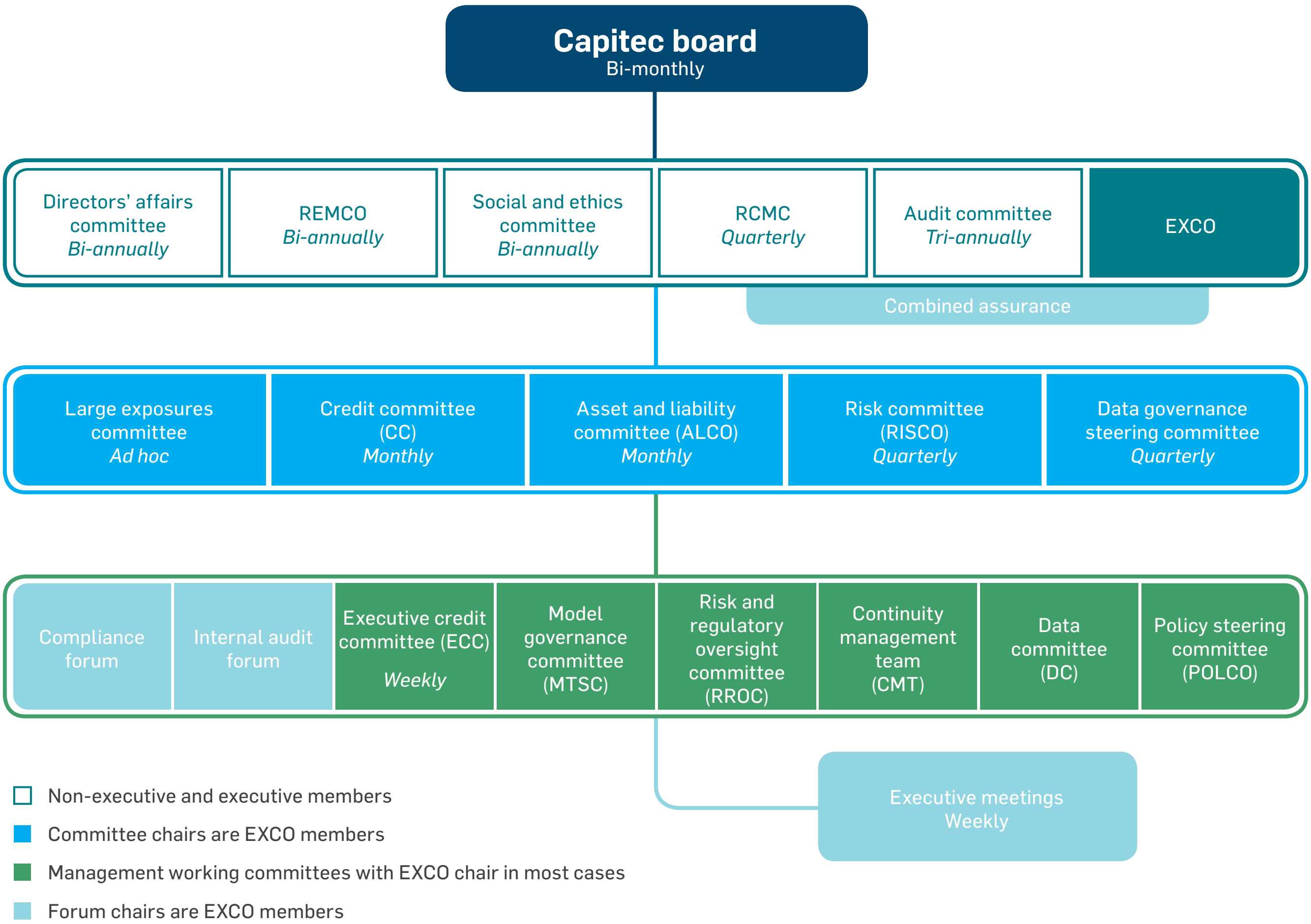
Executive committee (EXCO)

Composition	Purpose	2020/2021 focus areas
Executive directors • KR Kumbier • MEL Teixeira • GM Fourie (appointed 29 November 2019) • NS Mashiya (appointed 14 February 2020) • AP du Plessis (appointed 29 November 2019) **Quorum** CEO, CFO, executive: risk, or replacement members as appointed by the EXCO, subject to at least 2 being quorum members	As defined in its charter, the EXCO's primary objectives are: • The committee conducts operational decision-making • The committee implements board-approved strategic decisions	The EXCO has fulfilled its responsibilities in terms of its charter during the year under review.

KR Kumbier is the CEO of Mercantile Bank.
MEL Teixeira is the financial director of Mercantile Bank.

Risk management report – Retail banking

In a dynamic world we manage risks to ensure that we continue creating sustainable value for stakeholders while we expand and diversify. We do this in a responsible way and have a culture of risk management.



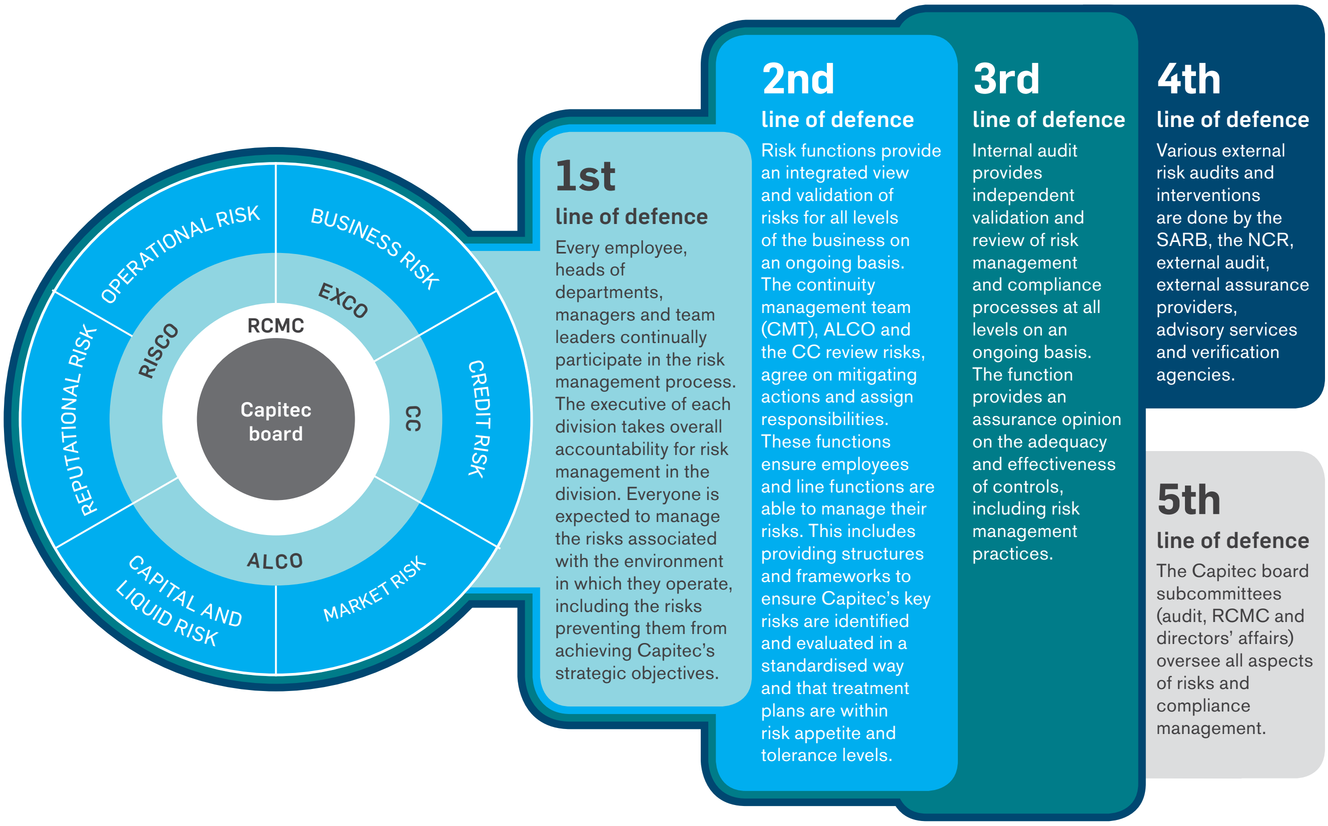
* Enterprise risk management framework

Our enterprise risk management framework governs risk management and guides us to ingrain the Capitec risk culture. It defines Capitec's risk management universe, structure, policies and processes. No material changes were made to the framework this year: the focus was on the maturity of implementation.

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

Through the framework we want to create higher levels of certainty about potential risks and provide clarity about the ways to mitigate these. This requires an integrated approach in all business areas.

There is evidence that employees are more aware of potential risks and are reporting these more frequently. Collaboration with internal audit helps to identify new or emerging risks. In cases where our crisis management plans were tested, they proved to be effective and agile.



* The governance of risk

We have an extensive, multilayered structure to govern risk. However, our board is ultimately responsible for risk management. This includes ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board monitors the implementation of the risk strategy, approves the risk appetite and ensures that risks are managed within tolerance levels.

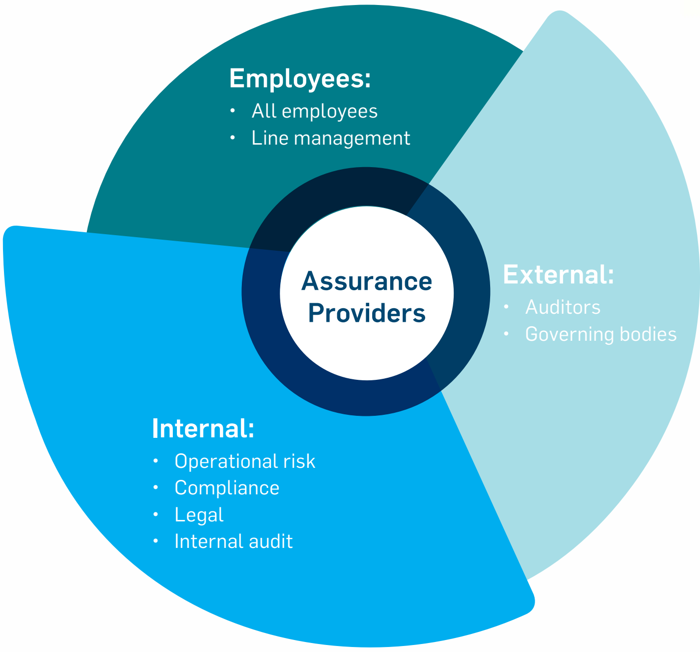
Capitec's risk universe consists of 6 risk categories that are managed by EXCO and 3 risk management committees: the risk committee (RISCO), the credit committee (CC) and the asset and liability committee (ALCO). These committees report to the risk and capital management committee (RCMC), which is mandated by the board to oversee risk management.

The RCMC, which is composed of executive, non-executive and independent non-executive directors, oversees risk management according to a board-approved charter. The committee meets quarterly and includes senior management attendees with representation from risk, credit, compliance and internal audit. This ensures that a consistent risk appetite is shared by management and the board. We believe the composition of the RCMC is important to ensure that proper governance is maintained. Healthy risk discussions are encouraged from a forward-looking perspective while taking past risk events into account.

The diagram defines the 6 risk categories and shows the relevant oversight structures. This includes the EXCO which manages risk on a day-to-day basis as part of managing the group. We also highlight the 5 lines of defence that the group adopts.

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

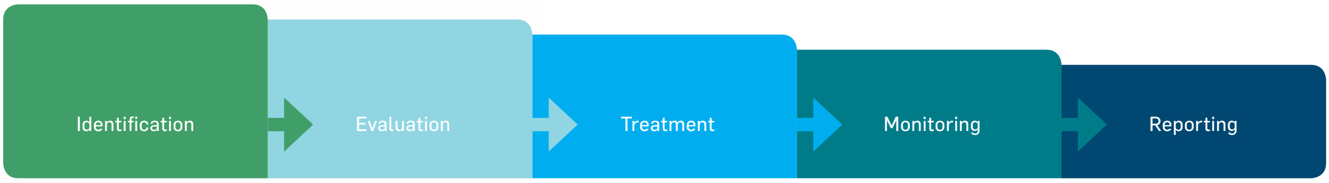
Combined assurance brings together the business's lines of assurance to most effectively and efficiently identify, manage and monitor key business risk



Combined assurance supports risk management

The audit committee and the RCMC are responsible for a combined assurance model.

- Create a single view of the key risks for all assurance providers enabling an alignment of effort
- Provide oversight, structure and guidance for the identification, evaluation and treatment of risks
- Improve the overall assurance provided to senior management and the board
- Provide role clarity to all assurance providers regarding their responsibilities



Our risk management process

We have an iterative, 5-step process to manage risk.

Risk identification

Risks are identified by heads of departments. They carry the primary responsibility for identifying and managing risk appropriately. Identified risks are formally documented on risk registers and have designated risk owners. The risk management function provides support by facilitating risk self-assessment workshops where appropriate.

Risk evaluation

The board-approved risk matrix allows for consistency in the evaluation of risk. Risks are evaluated in terms of 2 criteria: likelihood and impact when materialising. We consider the inherent and residual side of risk. The risk management department supports the business heads by providing independent oversight and monitoring risks across the group on behalf of the board and relevant committees.

Risk treatment

Risks are accepted, transferred, mitigated or avoided, based on the outcome of risk evaluation. If mitigated, then mitigation plans are tracked against predetermined timelines and monitored accordingly. The necessary escalation processes are in place.

Risk monitoring

Risk is managed as part of Capitec's daily operations according to key risk indicators (KRIs). These assess risk against predetermined tolerance levels. KRIs can be found on the management operating system (MOS) and are reviewed regularly. Risk monitoring also includes scheduled mitigation reviews with the risk owners and the identification of any emerging risks.

Risk reporting

Risk reporting is clear, concise and puts management and the board in a position to make informed risk decisions. To ensure we report the right risks to the right people at the right time, the bank adopted the Basel principles for effective risk data aggregation and risk – reporting practices under Basel Committee on Banking Supervision Standard number 239 (BCBS 239).

Embedded RDARR principles in our data management and risk management practices

Adopting RDARR principles is not enough. We believe that these principles have to be embedded in our business. At present our risk and data management practices are well aligned and our data strategy will ensure we continue to improve as we grow.

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

Overarching governance and infrastructure

- Define a strong governance framework, risk data architecture and IT infrastructure
- Ensure risk data aggregation capabilities and risk reporting practices are subject to strong governance
- Design, build and maintain data architecture and IT infrastructure

Risk data aggregation capability

- Generate accurate, reliable and up-to-date risk data across the banking group activities to identify and report risk exposures, concentration and emerging risks

Risk reporting practices

- Ensure reports are accurate, convey aggregated risk data and are reconciled and validated
- Ensure reports are comprehensive, clear, useful and set at a frequency which meets the recipients' requirements

Supervisory review, tools and coordination

- Supervisors should periodically review and evaluate compliance to these principles
- Ensure reports are comprehensive, clear, useful and set at a frequency which meets recipients' requirements

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 banking group, 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 product and derives the total credit losses that can be absorbed over the term of the product to achieve our targeted ROE.

We adopt a zero-tolerance attitude to any risk events related to discrimination. For other operational risk events we have a low appetite, which means that the group 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. We then consider the range of outcomes above and below acceptable targets. The tolerances are measured by the Capitec MOS indicators.

Stress testing, contingency planning and business continuity

The group conducts integrated scenario-based recovery planning to prepare for contingencies. In addition to the SARB's requirements, we conduct recovery planning to ensure that the group is well prepared to withstand capital, liquidity and operational risk shocks. We are implementing a business continuity tool that will enable us to develop our own scenarios in future, based on an analysis of drivers for the different business divisions.

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 disaster recovery plan.

The business continuity and disaster recovery plans contain 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.

Credit risk

* The group can suffer a loss if a client or other counterparty fails to meet its financial obligations. This is defined as credit risk. Our credit risk primarily arises from retail credit lending.

Risk movement	→
Primary board committee providing oversight	CC → RCMC
Primary management accountability	EXCO

* Credit risk management decisions are made against the backdrop of our purpose: to improve the financial lives of our clients. Credit risk mitigation, such as credit policies, data, models and risk indicators, guides these decisions according to agreed principles and tolerance levels.

The RCMC oversees credit risk through the CC. The CC sets credit strategy and approves credit policy. It monitors impairments and changes in the operating environment and ensures that credit risk remains within appetite. The executive credit committee (ECC) reports on the credit risk policy monitoring decisions for each stage in the credit life cycle. Financial governance is applied through pricing and impairment models, regulatory reporting and the internal capital adequacy assessment process (ICAAP). A modelling technical subcommittee (MTSC) provides a forum for 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.

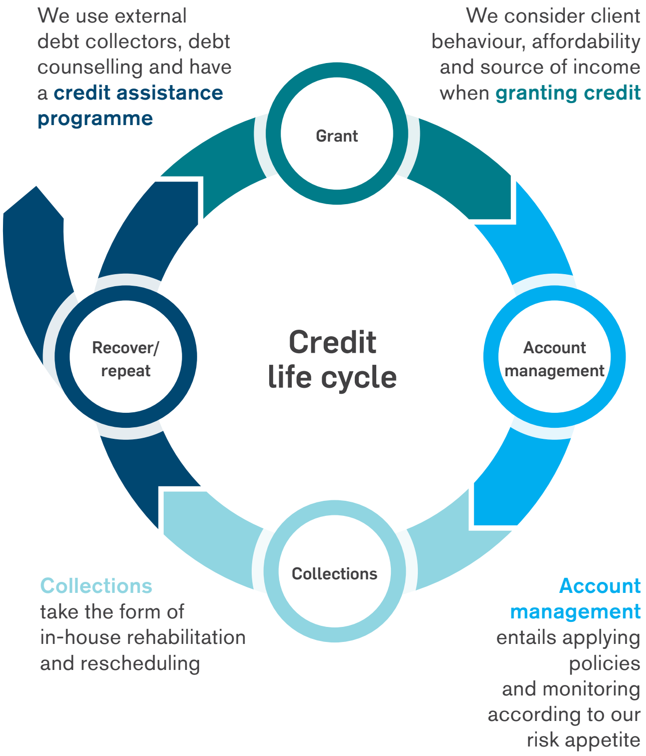
Our credit-granting approach

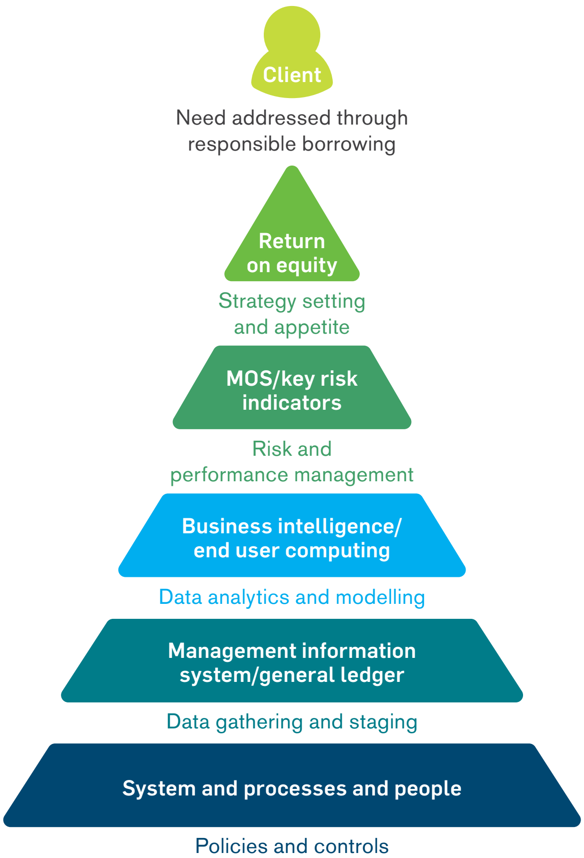
Our personalised credit solution achieves the best possible credit limit, over the optimal repayment term, with the best interest rate. This is offered to clients based on their past banking and credit behaviour, affordability and the stability of their source of income. We also use data from credit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

* Our credit-granting criteria evolve as we improve our understanding of client needs, behaviours and risk profiles, and as we respond to changes in the economic and regulatory environment. The low-growth economic environment means that we take a cautious approach to credit granting. We apply a sophisticated statistical model when granting credit and are incorporating machine-learning algorithms and more transactional data into the model.

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

CREDIT MANAGEMENT FRAMEWORK





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

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In addition to the comprehensive credit risk-scoring assessment, a client also needs to pass a rigorous affordability assessment to qualify for credit. Client affordability is assessed by considering the client's sustainable income, existing debt repayment obligations and other necessary expenses in line with regulatory requirements. We also perform a Capitec disposable income calculation in parallel and use the more conservative outcome of the 2 calculations.

The credit application process and calculations are automated and client data is captured based on standardised rules to ensure compliance. Quality is assured through a centralised function that reviews the accuracy of data captured in the application process. This is used to determine training requirements and policy enhancements to maintain a high level of accuracy.

Our credit-granting model puts clients in control of their own credit decisions by providing a range of credit offers. They can choose between offers that maximise the loan amount or credit limit to suit their funding needs, offers that minimise the monthly instalment to suit their cash flow, and offers that minimise the cost of credit.

Wider revolving credit facility offerings have created positive solutions for clients placing a combination of fixed-term and revolving credit at their disposal.

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Credit collection and rescheduling

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 Authenticated Collections (AC) and 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.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. If the client is in arrears due to debt repayment challenges, we either negotiate with the client to bring the arrears instalments up-to-date, or we attempt to help manage the situation by amending the loan agreement (loan reschedule).

Rescheduling is offered as a rehabilitation mechanism. This mitigates credit losses as it favours arrears clients who have a propensity to rehabilitate and serves as an early-warning mechanism for non-arrears clients.

Various forms of rescheduling solutions are available to address the underlying cause of the arrears. A data-driven treatment model assists call centre agents in offering the optimal arrangement or rescheduling option to a client, based on the client's risk profile, financial needs and ability to honour the arranged treatment.

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 3 months in arrears, for example);
- whether the client was rescheduled previously;
- the credit exposure amount;
- free cash flow estimates derived from the client's bank accounts or credit bureau records (salary less debit orders); and
- any information we have about the client's employer.

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.

Clients with a low propensity to cure in-house and that do not qualify for rescheduling are handed over to an external debt collector (EDC) for outsourced recoveries. We monitor the proceeds (yield) that we receive from this outsourced process against internal collection processes, including rescheduling. We use holdout samples to evaluate the success of new collections and recoveries to further optimise yield. Debt is sold when the expectation of future payments, as estimated by an internal valuation methodology, is considered too low.

Apart from the above rehabilitation options, a client also has access to statutory mechanisms, such as debt counselling.

Our credit assistance programme helps clients when they have lost income or where expenses increased beyond their control. The programme offers a unique debt relief solution and helps improving consumer financial literacy. This initiative also provides learning in line with the National Credit Act, Act 34 of 2005 (NCA) Amendment Bill that seeks to improve the overall financial situation of low-earning consumers.

Credit risk reporting

Credit risk is monitored daily, weekly and monthly through KRIs such as accept rates and take-up rates regarding sales. Book measurements include arrears, instalment collection success, centralised collection activities, treatments and balances rolling into a fully provided state.

We expanded our efforts to reconcile the elements of probability, price and impairments.

We regularly assess the levels of impairments through coverage ratios to ensure that we adequately provide for the risk profile of the loan book.

Credit risk training

New service consultants complete intensive training in simulated environments and are required to pass stringent assessments before they can work in the live environment, initially under supervision. We continuously provide credit training to ensure that each service consultant understands and can adhere to the latest policies and procedures. The need to understand credit risk resulted in the development of a BANKSETA accredited learnership package. This is the starting point towards a qualification in banking and unsecured lending as a prospective career.

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 the credit requirements of our market.

Counterparty credit risk

Capitec has limited counterparty credit risk in terms of the Banks Act regulations, 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 retail banking book, and resale investment transactions concluded as part of cash management activities.

Investment credit risk

Capitec has a low risk appetite regarding investing surplus cash and liquidity buffers. Surplus cash is invested in 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. Capitec adopts a hold-to-maturity approach. 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 supplier and counterparty risk committee assesses and the CC approves prepayment and inventory exposure limits to suppliers as part of the procurement policy. This limits operational and financial risk. Read more about counterparty, investment and other credit risks in the audited annual financial statements from page 138.

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

Standardised approach – credit risk exposure, credit conversion factors (CCF) and credit risk mitigation (CRM) effects

29 February 2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount R'm	Off-balance sheet amount R'm	On-balance sheet amount R'm	Off-balance sheet amount R'm	RWA R'm	RWA density
Sovereigns and their central banks	16 356 719	–	16 356 719	–	–	0%
Non-central government public sector entities	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–
Banks	22 700 805	–	10 834 764	–	3 048 663	13%
Securities firms	–	–	–	–	–	–
Corporates	6 360 447	–	6 216 067	–	6 170 718	97%
Regulatory retail portfolios	55 451 793	1 521 927	54 380 150	–	40 980 728	74%
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past-due loans	10 015 376	–	2 678 121	–	1 660 763	17%
Higher-risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	110 885 140	1 521 927	90 465 821	–	51 860 872	47%

28 February 2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount R'm	Off-balance sheet amount R'm	On-balance sheet amount R'm	Off-balance sheet amount R'm	RWA R'm	RWA density
Sovereigns and their central banks	12 013 061	–	12 013 061	–	–	0%
Non-central government public sector entities	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–
Banks	22 217 101	–	20 496 416	–	7 256 266	33%
Securities firms	–	–	–	–	–	–
Corporates	6 443 412	–	6 298 485	–	6 277 806	97%
Regulatory retail portfolios	47 465 138	911 740	46 779 560	–	34 870 617	73%
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past-due loans	7 339 016	–	1 684 020	–	1 252 761	17%
Higher-risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	95 477 728	911 740	87 271 542	–	49 657 450	52%

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

Operational risk

If we are unable to run the business because of an external event or if an internal process failed, Capitec will experience losses. This constitutes operational risk. We rely on people and systems to operate effectively and efficiently.

Risk movement	→
Primary board committee providing oversight	RISCO → RCMC → Audit
Primary management accountability	EXCO

We define risk as any event, change in circumstances or consequence that may create uncertainty in terms of achieving our strategic objectives. By managing these uncertainties – which can have a positive, negative or unexpected impact – we can create and protect value in the interest of all our stakeholders.

We make informed decisions about operational risk, guided by the enterprise risk management framework and supporting risk and oversight committees. We believe in collaborative and cohesive relationships within the group to encourage transparency and trust, and to ensure consistent risk management practices. We encourage healthy risk discussions in a safe environment at all levels of our business. This creates a risk culture, which is essential to identify, manage and mitigate risks that threaten our stakeholders.

Good risk management practices suggest we should stand back from our daily risk registers at least annually. This helps us to reconsider known issues and revisit the entire risk landscape and its potential impact on our operations. Read more about Capitec's business context and the particular challenges during the financial year in the CFO report. This is the backdrop against which we manage operational risk.

Our systems and processes support a centralised view of all risks. This view is enriched with information from our risk self-assessment workshops. In combination with near-miss and incident analysis, we create a holistic view of risk. Operational risk works with the wider risk division, including internal audit under the combined assurance initiative to ensure we have a balanced view of risks and controls.

Operational risk consists of the following categories:

- Fraud risk
- Information technology (IT) risk
- Information risk
- Compliance and legal risk
- Conduct risk

Fraud risk

Fraud risk includes financial crime and money laundering. We use technology to prevent exposure to this kind of fraud. Our fraud policy outlines what constitutes fraud and corruption and details the procedures to follow where these activities are suspected or discovered. We cooperate with government and industry role players to ensure the successful apprehension and conviction of perpetrators of financial crime, including bribery and corruption.

IT risk

Capitec pursues innovative technology applications and solutions to provide clients with simplified banking. In driving this, we have to protect clients' information by applying and developing controls, and ensuring compliance. 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 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), the Information Security Forum (ISF) Standard of Good Practice, and International Organization for Standardization (ISO) 25999 and 27001/2.

Capitec's strategy demands that we focus on clients. Therefore, our IT strategy is created, approved, reviewed and implemented to align with the business strategy. We work according to a 6 month planning process to align initiatives in each IT function with business objectives that can be tracked weekly and monthly, to achieve set targets.

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 also 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 at a senior management level. Important issues are handled with the appropriate level of urgency and focus. Operational risk management and IT security and risk meets on a weekly basis to ensure alignment.

The SARB engages regularly – formally and ad hoc – with the IT risk management team. We report significant incidents or relevant information to them via the monthly Capitec reporting pack. This ensures that our regulator is up to speed with any emerging or developing technology risks.

Information security management system (ISMS)

The Capitec information security policies and standards provide the basis on which controls are developed to protect sensitive client and business information systems.

Our ISMS is based on ISO 27001/2 standards and the best practice principles of the ISF Standard of Good Practice. The information security manager is responsible for information security management.

Cyber security

Capitec has a dedicated team focused solely on the protection, detection and response to cyber security. We test our own IT controls for weaknesses to improve our security and response times. Capitec is involved in industry initiatives, such as the South African Banking Risk Information Centre (SABRIC), to establish and embed well-coordinated 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 ensure compliance and the safeguarding of our information assets and form the foundation of our competitive advantage as a group.

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

Capitec values the privacy of our clients, employees and other stakeholders. We process personal data responsibly, securely, lawfully and in accordance with Capitec Bank's duty of confidentiality towards clients. We take a collaborative approach to data privacy and have established a close working relationship between business development, operational areas and the data privacy team. The latter comprises representatives from information risk, information security, data governance, compliance and legal teams. We continuously monitor local and international developments in data protections laws and standards, and incorporate relevant practices where appropriate.

Compliance and legal risk

We recognise the interdependency of the banking industry and the reliance of the economy and citizens on banks. This demands that all participants comply with legislation. The group has a dedicated function, as prescribed by the Banks Act, to manage compliance risk. The head of compliance reports to the audit committee and RCMC and submits reports to the directors' affairs committee.

Our compliance policy, which forms part of the compliance framework, and our compliance manual and compliance programme, define the ways in which the board and CEO are assisted to ensure that 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. We want to ensure that these remain relevant and current as we grow and launch new products. The compliance function helps to foster a culture that creates awareness and recognises the value of compliance risk identification, assessment, management, monitoring and reporting as part of the group's ongoing activities. Notable regulators that play a role in compliance requirements and direct our conduct are the:

- Prudential Authority;
- NCR;
- JSE Limited;
- Financial Intelligence Centre;
- Financial Sector Conduct Authority (FSCA); and
- Information Regulator.

We received no material regulatory penalties, sanctions or fines for contraventions of or non-compliance with statutory obligations. Read more about the regulatory requirements that affect Capitec in the regulatory section of the CFO report from page 10.

Insurance risk

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.

Conduct risk

Our market conduct risk framework is designed to enable Capitec to identify to market conduct risk, respond to the identified risks and to monitor the effectiveness of controls designed to these risks. In our statement, we communicate to all employees Capitec's approach and commitment to implementing, maintaining and developing policies, procedures and measures to ensure fair treatment of our clients throughout the product and service life cycle.

Market risk *

Changes in our share price, interest rates or exchange rates can affect our financial position as a group. These changes can increase or decrease the value of our assets or liabilities. This constitutes market risk.

Risk movement	→
Primary board committee providing oversight	ALCO → RCMC
Primary management accountability	EXCO

* The ALCO addresses market risk at least monthly. This risk generally has a wide impact and is often outside our control. It includes equity, bond and commodity price changes and fluctuations in exchange and interest rates. Our exposure to market risk is mainly due to inherent interest rate risk in retail banking activities, which are defined as the "banking book" by Basel.

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

Market risk consists of the following categories:

- Interest rate risk
- Insurance risk
- Equity and currency risk
- Hedging risk

Interest rate risk

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

We have a conservative approach to liquidity. 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. These factors result in an inherent interest rate repricing mismatch for Capitec.

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 5% on the bank's profit.

Fixed interest rate retail loans

Capitec loan clients do not have to manage the risk of increasing instalments on their loans as Capitec charges a fixed interest rate.

The impact of the liquidity strategy

We 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

We have a natural mismatch position when the group has 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 of 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.

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 that are 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	2020 R'000	2019 R'000
Increase	(843 648)	(760 837)
Decrease	863 276	785 186

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 full-lifetime run-off basis, using the discounted cash flow approach, in line with the requirements of the Banks Act. This gives an indication of how the value of shareholders' funds may change if there is a shift in interest rates.

Insurance risk

The type of insurance contract offered by the group is credit life insurance. We have a cell captive arrangement where Capitec is the owner of a cell underwritten by a cell captive insurer. As part of this arrangement, we entered into a binder agreement with the insurer who manages the collection of premiums, payment of claims and the residual net cash being remitted on our behalf.

When loan clients are granted credit for terms of 7 months and longer, we require 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 us with an existing policy to cover this requirement or take out an insurance policy with another insurer. We offer loan clients the option to enter into credit insurance contracts in the normal course of business.

The cell captive arrangement is considered to have transferred significant insurance risk to Capitec (see accounting policy 2.15 in the annual financial statements) due to the contractual requirement imposed on the group to maintain the solvency of the cell. To mitigate this insurance risk, Capitec, in consultation with the cell captive insurer, annually reinsured the insurance risk contained within the cell captive, with the significant

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

portion being placed with A- (S&P) credit-rated insurance companies. We are therefore essentially the reinsurer of last resort should the reinsurers not honour the reinsurance contract and Capitec would have to recapitalise the cell should losses be incurred.

Reinsurance 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 according to the approved mandate for the cell captive arrangement. The insurance contract liabilities for the retained insurance risk are disclosed in note 11 – net insurance receivables to the annual financial statements.

The main insurance risks to which we are 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, 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: the risk that the group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies
- Business volume risk: the risk that the group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration

The group carries no insurance risk on the Capitec funeral plan.

Equity and currency risk

Capitec's profitability and shareholders' equity can be affected by changes in exchange rates between the rand and the foreign currencies in which assets and liabilities are denominated.

Capitec does not deal in equity instruments and the group has limited exposure to equity investments. 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 hedged by means of forward exchange contracts.

Hedging risk

To reduce market risk and the impact of currency volatility, Capitec uses hedging mechanisms. However, ALCO only allows the following 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 match the fixed-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 market risk in the CFO report from page 10.

Capital and liquidity risk

If a client needs to access their savings or a funder requires repayment, we need to be able to honour our commitments as a bank. Not having cash available can results in losses. This constitutes capital and liquidity risk.

Risk movement	→
Primary board committee providing oversight	ALCO → RCMC
Primary management accountability	EXCO

Capitec's ALCO oversees the activities of treasury, which operates in terms of an approved ALM policy. ALCO assesses capital adequacy monthly and manages it daily as necessary. This includes a historical and future capital positioning review, and a quarterly report to the RCMC. Capital adequacy and the use of regulatory capital are reported to the SARB monthly, in line with the requirements of the Banks Act.

Risk management and capital management are interdependent. We hold risk capital as a reserve in line with regulatory requirements. This allows 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 and volatility in expected future losses that are not captured in terms of International Financial Reporting Standards (IFRS).

Read more about capital and liquidity management in the CFO's report from page 10 and in the audited annual financial statements from page 138.

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

Capital management

Capitec's objectives when managing capital are to:

- Ensure that the return on capital targets are achieved through efficient capital management, and that 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 to ensure sustainability through the business cycle.

The 2 principles 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. It also 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.

Capitec is a systemically important financial institution (SIFI) as indicated by the Prudential Authority (PA) on 19 August 2019. SIFIs may be required to hold additional capital as required by the PA.

Capital to manage risk and growth

Capitec retains capital for risk on the existing portfolio and 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;
- maintain capital buffers at the stipulated requirements of regulators; and
- meet shareholders' expectations.

Demand-side risk

Demand-side risk involves monitoring the growth in risk-weighted assets. This in turn drives the growth in regulatory and our own internal capital requirements. Our internal risk management function addresses the demand-side risk, which encompasses risks that have a negative impact on earnings and capital.

Capitec has an ICAAP, which drives the group's position on capital management on an ongoing basis. The ICAAP reviews our historic, current and future capital positioning from an internal and a regulatory capital perspective.

Capitec Bank Limited (Capitec Bank), the wholly owned subsidiary of Capitec, acquired 100% of the issued share capital of Mercantile Bank Holdings Limited (Mercantile Holdings) on 7 November 2019, the date on which the final purchase price was paid. On 12 November 2019, the assets and liabilities of Mercantile Holdings were transferred to Capitec Bank. Mercantile Bank Limited (Mercantile) is now the direct, wholly owned subsidiary of Capitec Bank.

Both Capitec and Mercantile apply the standardised approach to calculate capital adequacy. The acquisition of Mercantile has a significant impact on Capitec's capital adequacy ratio, as Capitec's qualifying capital is measured against the combined risk weighted assets of Mercantile and Capitec. The impact of the inclusion of Mercantile's risk weighted assets resulted in a decrease of 5.5% in the group capital adequacy ratio. Of the total risk weighted assets as at 29 February 2020, R12.3 billion is attributable to Mercantile.

In terms of the regulations relating to banks, goodwill and intangible assets net of the related deferred tax liability, are treated as specified adjustments and are deducted from Common Equity Tier 1 (CET1) capital and reserve funds. The goodwill originating on the acquisition of Mercantile and Mercantile's intangible assets at acquisition therefore reduced the qualifying CET1 capital of Capitec on consolidation and resulted in a further 1.2% decrease in the group capital adequacy ratio.

The impact of the acquisition of Mercantile on the capital adequacy ratio of Capitec was partly offset by an increase in appropriated profits and the placement of excess funds in investments with lower risk weightings such as South African National Treasury bills. Both Capitec and Capitec Bank have maintained healthy buffers above the minimum capital adequacy requirement.

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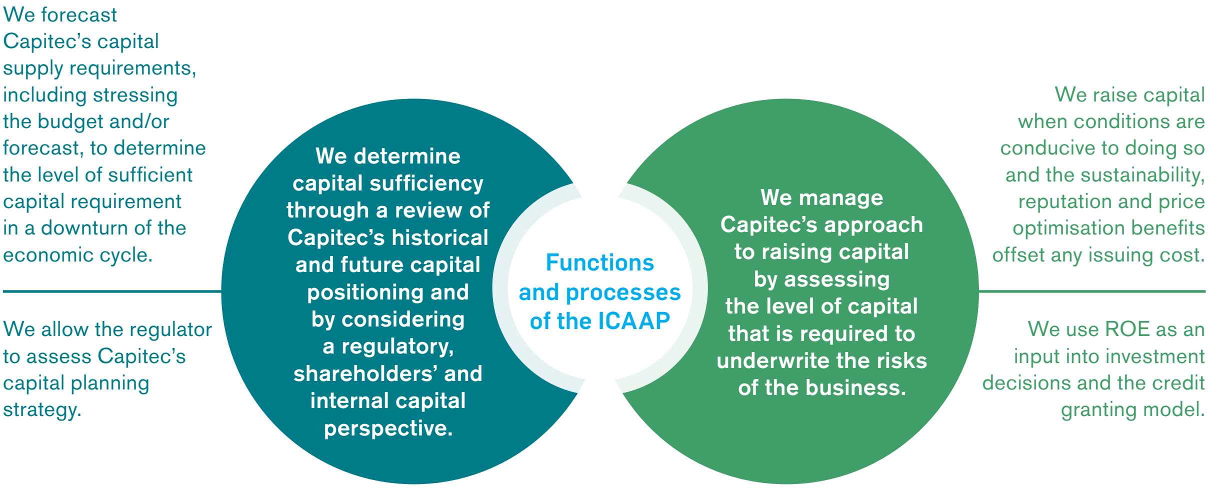
The table below summarises the composition of regulatory capital for the group and the bank:

R'000	Group 2020	Group 2019	Bank 2020	Bank 2019
Regulatory capital adequacy				
Composition of qualifying regulatory capital				
Ordinary share capital	**5 649 020**	5 649 020	**6 105 981**	6 105 981
Foreign currency translation reserve	**29 818**	4 619	**–**	–
Other reserves	**(26 307)**	4 619	**(21 345)**	–
Accumulated profit	**19 855 211**	15 950 142	**18 835 001**	14 790 738
	25 507 742	21 603 781	**24 919 637**	20 896 719
Regulatory adjustments				
– Intangible assets in terms of IFRS	**(1 347 534)**	(316 282)	**(401 974)**	(316 282)
– Specified advances	**343 852**	480 650	**(724 671)**	481 313
– Unappropriated profit	**(46 818)**	(856 407)	**(5 673)**	856 407
Common Equity Tier 1 capital (CET1)	**24 457 242**	20 911 742	**23 787 319**	20 205 343
Issued preference share capital[(1)(8)]	**73 098**	81 603	**73 098**	81 603
Phase out – non-loss absorbent[(2)]	**(21 304)**	(3 912)	**(21 304)**	(3 912)
Additional Tier 1 capital (AT1)	**51 794**	77 691	**51 794**	77 691
Tier 1 capital (T1)	**24 509 036**	20 989 433	**23 839 113**	20 283 034
Issued subordinated debt	**–**	1 822 000	**–**	1 822 000
Phase out – non-loss absorbent[(2)]	**–**	(1 822 000)	**–**	(1 822 000)
Deduction for third-party capital issued by bank subsidiary[(3)]	**–**	–	**–**	–
Total subordinated debt	**–**	–	**–**	–
Unidentified impairments	**756 767**	624 762	**648 261**	624 762
Tier 2 capital (T2)	**756 767**	624 762	**648 261**	624 762
Total qualifying regulatory capital	**25 265 803**	21 614 195	**24 487 374**	20 907 796
CET1 (%)	**29.5**	32.8	**30.8**	32.2
AT1(%)	**0.1**	0.1	**–**	0.1
T1 (%)	**29.6**	32.9	**30.8**	32.3
T2 (%)	**0.9**	1.0	**0.9**	1.0
Total capital adequacy (%)[(4)]	**30.5**	33.9	**31.7**	33.3
Composition of required regulatory capital				
On balance sheet	**6 914 352**	5 706 267	**5 964 520**	5 743 468
Off balance sheet	**50 702**	4 739	**–**	4 739
Credit risk	**6 965 054**	5 711 006	**5 964 520**	5 748 207
Operational risk	**1 217 338**	879 306	**1 066 740**	866 622
Market risk	**1 668**	–	**–**	–
Equity risk in the banking book	**77 108**	51 291	**73 912**	48 375
Other assets	**1 264 524**	685 946	**1 784 325**	558 647
Total regulatory capital requirement[(5)]	**9 525 692**	7 327 549	**8 889 497**	7 221 851
Composition of risk-weighted assets[(6)]				
On balance sheet	**60 124 799**	49 619 716	**51 865 392**	49 943 202
Off balance sheet	**440 891**	41 209	**–**	41 209
Credit risk	**60 565 690**	49 660 925	**51 865 392**	49 984 411
Operational risk	**10 585 544**	7 646 139	**9 275 997**	7 535 845
Market risk	**14 500**	–	**–**	–
Equity risk in the banking book	**670 500**	446 009	**642 713**	420 654
Other assets	**10 995 861**	5 964 751	**15 515 872**	4 857 796
Total risk-weighted assets	**82 832 095**	63 717 824	**77 299 974**	62 798 706
Total assets based on IFRS	**134 568 086**	100 427 749	**134 148 746**	100 061 284
Total risk-weighted assets – adjustments[(7)]	**(51 735 991)**	(36 709 925)	**(56 848 772)**	(37 262 578)
Total risk-weighted assets regulatory	**82 832 095**	63 717 824	**77 299 974**	62 798 706

(1) *For further details of the main features of these instruments, please refer to the Main Features of Capital Instruments and Traditional Basel 3 template on the Capitec Bank website.*
(2) *Starting 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.*
(3) *Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3. This deduction phases in at 20% per annum.*
(4) *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*
(5) *This value is 11.5% of risk-weighted assets, being the Basel global minimum requirement of 8%, the South African country-specific buffer of 1.00% and the Capital Conservation Buffer of 2.50% (disclosable in terms of SARB November 2016 directive in order to standardise reporting across banks). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.*
(6) *Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.*
(7) *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*
(8) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At 29 February 2020, 71.77% (2019: 68.49%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*



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. This 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.

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 uses the standardised approach to calculate risk weighted assets for credit and equity risks in the banking book. Our calculation of operational risk is governed by the alternative standardised approach (ASA). Mercantile calculates operational risk according to the standardised approach (SA).

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.

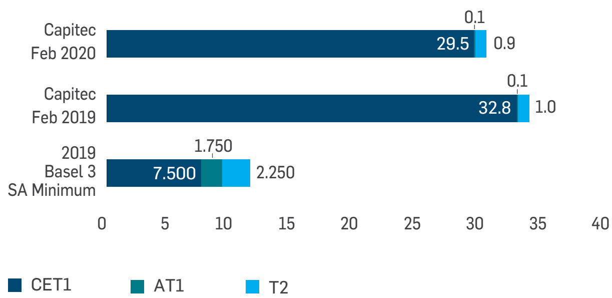
Subsidiary third-party capital

Basel 3 limits the contribution of preference share capital and subordinated debt issued by subsidiaries, in the group capital adequacy ratio. The 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 18.2% (2019: 20.8%) Capitec Bank Ltd has a leverage ratio of 19.4% as (Feb 2019: 20.2%)

CAPITAL ADEQUACY BY TIER



CET1 capital: ordinary share capital and reserves after Basel deductions.

AT1 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 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 2020 Basel 3 South African minimum includes the South African country buffer of 1.00%. The level of this buffer is at the discretion of the SARB and is subject to periodic review.

The 2020 Basel 3 South African minimum includes the capital conservation buffer of 2.500%, which was 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 ICR and domestic systemically important bank (D-SIB) buffer. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status.

Countercyclical buffer

This buffer 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; it will only be applied when credit growth exceeds real economic growth. The implementation period commenced in January 2016 with the rate of 0%.

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.

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 preventative approach to capital procurement. Management makes use of positive market conditions and positioning to obtain additional capital.

Liquidity risk

*We mitigate liquidity risk by ensuring that 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.

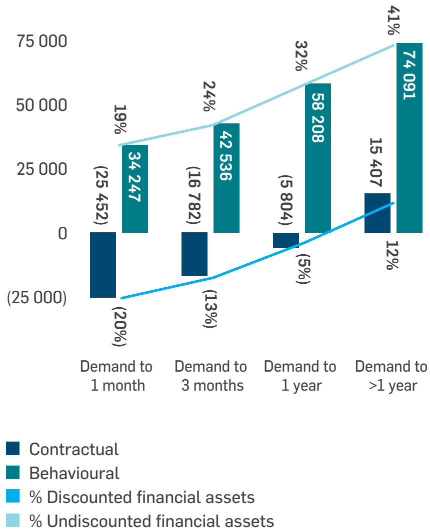
Our approach to liquidity risk remains conservative. There were no changes to the liquidity policy over the past financial year. The management of liquidity takes preference over the optimisation of profits.

*To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. The amount of cash not deployed in the loan book or in cash is R51.07 billion (2019: R44.2 billion). These are invested in low-risk, liquid, interest-bearing instruments. These assets provide a positive return.

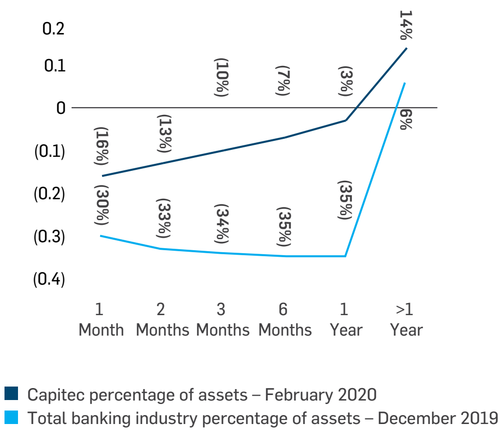
The liquid asset requirement of R3 235.1 million (2019: R2 328.0 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills, government bond backed resale agreements and cash. The intention is to hold all treasury bills to full maturity.

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

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES (R'm)



INDUSTRY COMPARISON – CUMULATIVE LIQUIDITY MISMATCHES (%)



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

Contractual and behavioural liquidity mismatches

Contractual and behavioural mismatches benefit from Capitec's high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 92.6% of these deposits (2019: 92.3%) are reflected as stable based on a 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 previous year.

The liquidity coverage ratio (LCR)

The LCR is a 30-day stress test, using 91 days (actual data points for the quarter) to calculate an average for the quarter. It 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.

	2020	2019	2018	2017
LCR (%)	1 696	1 450	1 878	1 152
High-quality liquid assets (R'm)	32 990	16 352	18 056	9 266
Net outflow (R'm)	1 945	1 128	962	804

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 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. It also strongly relies on retail deposit funding. A ratio of 100% or more represents compliance.

	2020	2019	2018	2017
NSFR (%)	196	196	206	187
Required stable funding (R'm)	61 884	46 548	37 205	35 337
Available stable funding (R'm)	121 041	91 044	76 621	66 187

The NSFR is calculated according to 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.

Retail call deposit limit ratio (RCDR) percentage

The RCDR is an internal ratio, looking at the next 6 months. The purpose of the ratio is to ensure that call deposits are not lent out for long-term loans. This ratio is stricter than Basel ratios and thus is the reason why compliance with Basel ratios has always been met without any adjustment to internal liquidity measurements.

Retail call deposit tolerance

The retail call deposits liquidity tolerance is a treasury tool to indicate how quickly the bank can pay back deposits. This is done by applying future cash from loans, wholesale and fixed-term maturities to any current cash deficit that may arise.

The liquidity recovery plan

The liquidity recovery plan requires that the bank has a liquidity monitor, a set of triggers developed to help identify the early stages of a liquidity crisis.

The monitor addresses 2 phases of liquidity difficulty, namely:

Early stage

This is the lower-risk stage that provides management with more opportunity to manage the bank out of a potential crisis.

Late stage

This is the high-risk stage where management's opportunities for corrective action are limited by the circumstances.

After a range of stress indicators were assessed, it was evident, on an overall balanced basis, that neither early nor late stage liquidity stress exists.

Reputational risk

Our reputation relies on the perception of clients, investors, employees and regulators. Their perceptions and expectations can have a positive or negative impact on future earnings or our ability to raise capital. This constitutes reputational risk.

Risk movement	→
Primary board committee providing oversight	RISCO → RCMC
Primary management accountability	EXCO

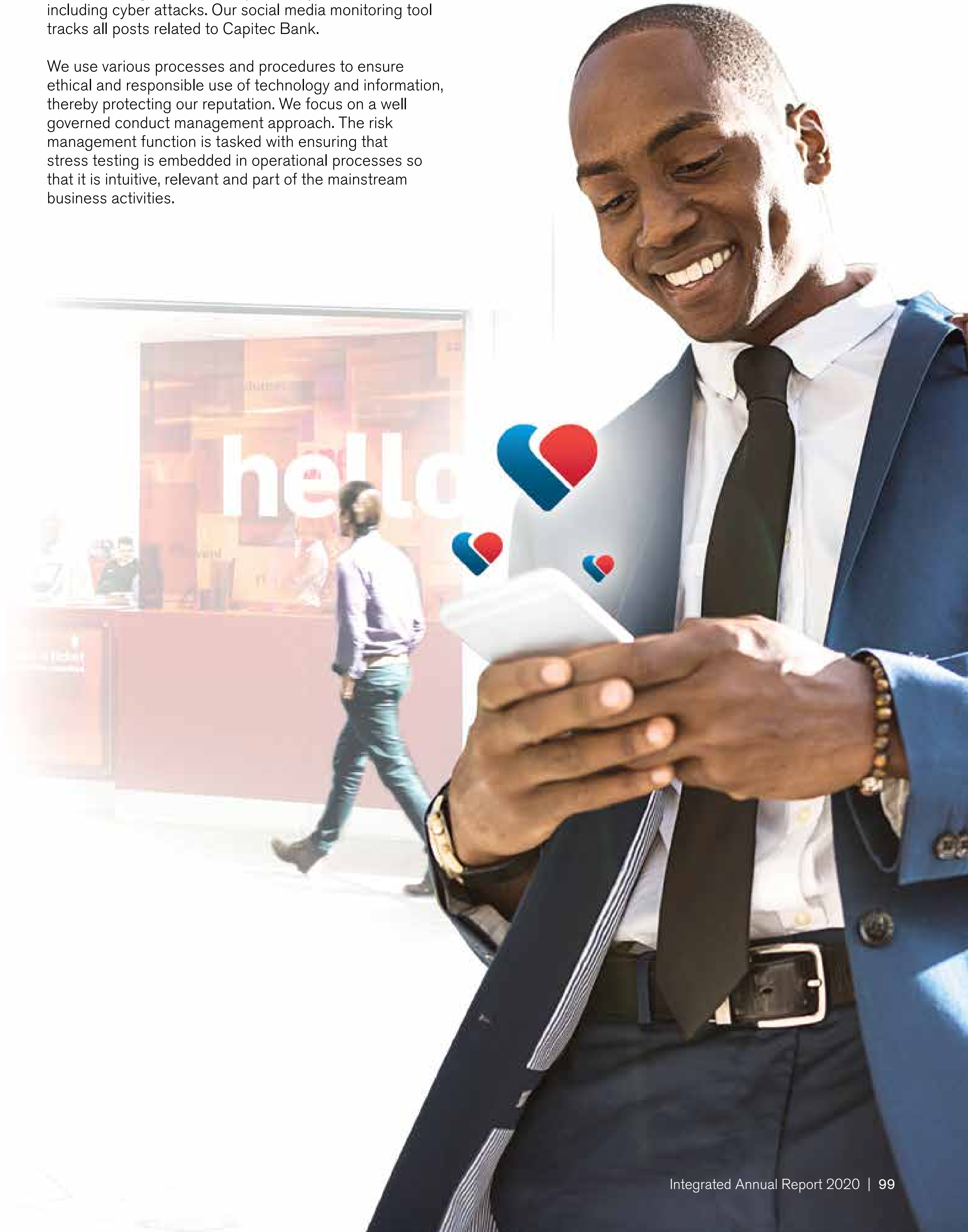
Reputational risk is managed directly at an executive management level and escalated to the board in case of significant events. We manage reputational risk on an ongoing basis through a policy framework that details the expected behaviour of business units and employees. It guides us on the monitoring of employee behaviour and specific client responses as well as to society in general. For example, the policy framework requires that we report in a transparent way through our integrated annual report, annual financial statements and other public statements.

To mitigate reputational risk we have:

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

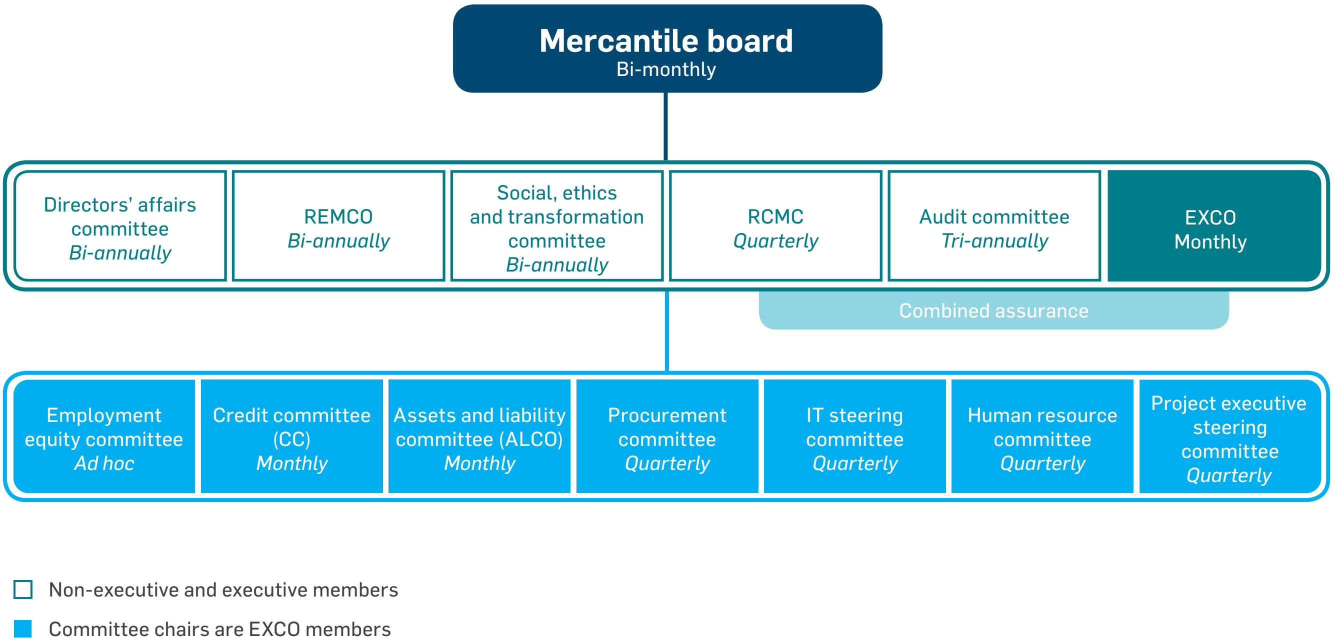
Reputational incidents are dynamic and can be complex. We actively manage by using a security incident and event-monitoring solution. This helps us to proactively monitor intelligence to identify and respond to incidents, including cyber attacks. Our social media monitoring tool tracks all posts related to Capitec Bank.

We use various processes and procedures to ensure ethical and responsible use of technology and information, thereby protecting our reputation. We focus on a well governed conduct management approach. The risk management function is tasked with ensuring that stress testing is embedded in operational processes so that it is intuitive, relevant and part of the mainstream business activities.



Risk management report – Business banking

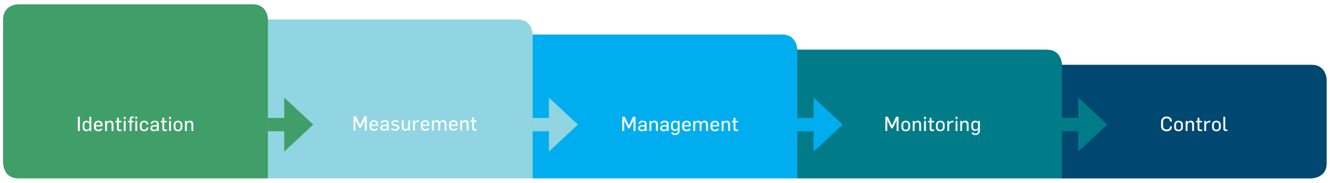
Mercantile manages risks to ensure it can continue creating sustainable value for stakeholders. This is done in a responsible way and creates a culture of risk management.



Enterprise risk management framework

Mercantile's enterprise risk management framework ensures appropriate and focused risk management. Risk assessment is a dynamic process and is reviewed regularly in line with changing circumstances. Risk dimensions vary in importance, depending on business activities. The objective of enterprise risk management is to ensure an integrated and effective risk management framework that identifies, quantifies and manages risks. Accurate risk measurement makes risk-adjusted performance measurement possible, creates the potential to generate increased shareholder returns, and allows risk tolerance to align with strategic objectives.

Mercantile manages risk bank-wide, involving the board and its various committees, credit, senior management, risk, business line management, finance and control, legal/compliance, treasury and operations with support from IT. Independent oversight and validation by internal audit ensures a high standard of assurance across the methodology, operational and process components of Mercantile's risk and capital management processes.



The governance of risk

Risk management life cycle and process

Mercantile's policies and procedure manuals are subject to ongoing review and are signed off at least annually by the relevant business unit heads. These standards are an integral part of Mercantile's governance structure and risk management profile, reflecting the board's expectations and requirements in respect of key areas of control. The standards and effective maintenance of the risk and control self-assessment process ensure alignment and consistency in the way that risk types are identified and managed.

Mercantile has an iterative, 5-step process to manage risk.

Risk identification

Risk identification is a continuous practice and focuses on recognising and understanding existing risks.

Risk measurement

Once risks have been identified, they need to be measured and quantified to the extent it is possible.

To determine risk appetite Mercantile considers the levels of earnings, growth and volatility that it is willing to accept from certain risks that are core to its business. Mercantile considers economic and regulatory capital as well as the return on capital. Mercantile maintains a capital buffer for unforeseen events and business expansion.

Risk management

Major risks are managed and reviewed by an independent risk function. The ALCO, RCMC and CC meet regularly to collaborate on risk control and process review, to establish how much risk is acceptable, and to decide how the business bank will stay within targets laid down in risk tolerance targets.

Risk monitoring

Oversight by the SARB is fundamental to the risk monitoring and supervisory process. Management is responsible for documenting conclusions and communicating findings to the ALCO, RCMC and CC, and to the SARB (through Banks Act returns and periodic meetings).

Risk control, stress and back-testing

Mercantile follows a policy of ongoing stress testing. Critical variables are sensitive to domestic and international market changes. These are identified and modelled to determine the possible impact of the deterioration of identified variables on Mercantile's results. All events are considered in formulating appropriate modelling criteria. A board-approved policy of back-testing for key variables is in place.

Mercantile subscribes to the principles for the sound management of operational risk as defined by the Basel Committee on Banking Supervision.

Credit risk

Mercantile can suffer a loss if a client or other counterparty fails to meet its financial obligations. This is defined as credit risk. Credit risk primarily arises from retail credit lending, business and commercial lending and rental finance.

Risk movement	↑
Primary board committee providing oversight	CC → RCMC
Primary management accountability	EXCO

Credit risk is a significant risk for Mercantile. Management and control are centralised in a credit risk management team that reports regularly to the board.

Credit granting and approach

Mercantile offers various credit products with the core focus on small to medium-sized businesses and commercial companies, and private banking to entrepreneurs.

Credit assessments are based on the following variables:

- Company history and conduct
- Industry and experience
- Owner contribution and commitment
- Financial position and credit payment profiles
- Security available to mitigate risk
- Reputational considerations

Mercantile adopts a conservative approach to credit granting, within a specifically defined and structured approval process. Credit granting is managed via a mandated approval process automated on the bank's workflow system. Mandates are accorded to frontline management within predetermined rules and parameters as approved by the RCMC. Approvals are continuously evaluated and monitored by the credit department.

Mercantile's credit risk strategy, which is contained in the risk and credit risk policy manuals, is approved by the CC and ratified by RCMC. Credit parameters and risk appetite levels are clearly defined and reflected in governing procedures and policies, which are reassessed from time to time to ensure relevance and competitiveness.

Dependent on the risk profile of the client across all portfolios or market segments, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are taken to mitigate credit-related risks.

Counterparty credit risk

*

Counterparties to derivatives expose Mercantile to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The bank continually monitors its positions and the credit ratings of its counterparties, and limits the value of contracts it enters into with any 1 party to within preapproved transactional limits.

Credit concentration risk

At year-end, Mercantile did not have any significant concentration of risk that had not been adequately provided for. There were no material exposures in advances made to foreign entities at year-end. Mercantile does not lend to foreign-registered companies. However, it provides banking to several locally registered companies that have foreign shareholding.

Credit risk reporting

*

Monthly reporting to ALCO includes reporting on large exposures. Mercantile prepares a monthly and quarterly portfolio analysis report and presents it to the RCMC. It analyses the performance and composition of the portfolio including client, geographic, segment and product concentration.

The CC conducts weekly reviews of all new and renewal proposals for lending in excess of R2 million (in aggregate). This covers topics including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the advances portfolio composition and performance. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at CC meetings, and takes appropriate actions.

The following data is used to monitor the exposures:

- Payment record, including payment ratios and ageing analysis
- Extent of utilisation of granted limit
- Forbearances (both requested and granted)
- Changes in business, financial and economic conditions
- Credit rating information supplied by external rating agencies (limited use hereof)
- Information obtained by periodic review of client files, including audited annual financial statements review and market data, such as changes in the financial sector the client operates, etc

Accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly watch list reporting. Monthly collection meetings are held and non-performing exposures are monitored. Senior management, including the CEO, takes prompt action on large defaults. This action has seen historical success.

Risk grading drives the comprehensive impairment model for amortising debt and performance reviews for working capital facilities.

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

The following were highlighted in the year:

- A culture of learning and development continued, with minimal employee attrition.
- The departmental structure, which is based on the market segments served, proved beneficial with risk identification and enhanced client experience.
- Credit mandates were amended along with various other initiatives to build capacity, drive efficiencies, and improve client experience. These amendments were considered in line with employees' technical competence.
- Businesses are hampered by market conditions. This is caused by slow economic growth and the pressure on consumer spend. Mercantile heightened monitoring and supervision of the portfolio, especially regarding early warning management.
- Mercantile progressed with the review of large exposure or high-risk security profiles and related risks, which is supported by the credit, legal and compliance area when monitoring covenants.
- Enhanced focus and continuous improvement of Mercantile's workflow system deployed within the credit assessment areas.
- Efforts to automate decision-making in the lower end of the banking segment, where the deal values are low and the volumes high, will continue into 2020. Analysis and testing are expected to increase given current market conditions prior to eventual adoption and rollout.
- Mercantile is improving the Mercantile Rental Finance decision support model. It will be implemented, subject to project objectives and testing being achieved.

Standardised approach – credit risk exposure, credit conversion factors (CCF) and credit risk mitigation (CRM) effects

29 February 2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount R'm	Off-balance sheet amount R'm	On-balance sheet amount R'm	Off-balance sheet amount R'm	RWA R'm	RWA density
Sovereign and their central banks	877 407	–	877 407	–	–	0%
Non-central government public sector entities	1 755	–	1 755	–	1 316	75%
Multilateral development banks	–	–	–	–	–	0%
Banks	3 571 482	33 231	3 571 481	40	728 607	20%
Securities firms	–	–	–	–	–	0%
Corporates	2 137 724	743 621	2 124 758	208 020	2 332 778	100%
Regulatory retail portfolios	2 710 880	752 306	2 665 270	99 724	2 171 147	79%
Secured by residential property	2 557 326	28 265	2 544 236	25 632	945 856	37%
Secured by commercial real estate	2 575 285	252 287	2 574 022	146 264	2 718 786	100%
Equity	–	–	–	–	–	0%
Past-due loans	595 195	240	415 277	–	431 340	104%
Higher-risk categories	–	–	–	–	–	0%
Other assets	–	–	–	–	–	0%
Total	15 027 054	1 809 950	14 774 206	479 680	9 329 830	61%

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

Operational risk

If Mercantile is unable to operate because of an external event or if an internal process failed, it will experience losses. This constitutes operational risk. Mercantile relies on people and systems to operate effectively and efficiently.

Risk movement	→
Primary board committee providing oversight	RISCO → RCMC → Audit
Primary management accountability	EXCO

Mercantile's operational risks include robbery, fraud, theft of data, unauthorised systems access, legal challenges, statutory and legislative non-compliance, ineffective operational processes and business continuity.

Operational risk management aims to enhance the level of risk maturity. Adequate risk management is achieved by implementing and embedding risk-based control identification and assessments, challenging the status quo regarding operational controls, and integrating the operational risk management process in all business units to ensure adequate risk management in an ever-changing business and financial industry. The operational risk committee meets at least quarterly and has representation from all business units.

Strategies, procedures and action plans to monitor, manage and limit risks associated with operational processes, systems and external events include:

- documented operational policies, processes and procedures with segregation of duties;
- ongoing training and up-skilling of employees on operational procedures and legislative compliance;
- an internal operational loss database records losses associated with operational issues, including theft and robbery, and is used to facilitate corrective actions;
- review and amendment of appropriate risk mitigation actions in line with the risk appetite and tolerances as approved by the board;
- a disaster recovery and business continuity plan, which includes conducting a variety of simulation exercises in critical operational environments;
- conducting monitoring and reviews by both the compliance and internal audit functions, in line with annual plans approved by the board;
- a comprehensive data security and protection programme;
- ongoing review of the risk and control self-assessment process;
- ongoing review of key risk indicators to assist risk identification and assessment;
- embarking on a programme to comply with the requirements of BCBS 239 to ensure accurate, complete, consistent and timely risk information – the board is fully supportive of this project and has committed human and financial resources;
- limiting access to systems and enforcing strong password controls;
- embedding combined assurance across the bank to maximise risk management activities and minimise duplication of efforts; and
- managing a comprehensive insurance programme to safeguard the business bank's financial and non-financial assets.

Disaster recovery and business continuity management facilities are outsourced to specialist service providers.

Mercantile benchmarks itself and stays abreast of developments regarding operational risk by actively participating as a member of the Banking Association of South Africa's (BASA) operational risk forum, as well as of industry working groups tasked with investigating and making recommendations to BASA on topical issues.

Information and IT risk

Information security and sound IT controls are critical and require focus to maintain processes and technologies in line with the business risk appetite and the ever-changing threat landscape.

External consultants performed an IT governance and information security review to determine gaps and maturity levels regarding information security protocols. This review used The Information Security Framework (ISF) Standard of Good Practice 2018 (SoGP 2018) as the best practice framework against which controls were assessed. This framework allows for a health check benchmark and easy reporting in ISO 27002 and COBIT 5 views, which was a requirement.

The following key milestones were achieved during the year:

- Submission in respect of the SWIFT client security programme
- Completion of multiple disaster recovery and business continuity tests
- Improvement of the maturity of the risk management artefacts and refreshing risk management principles within technology
- Deployed of the certificate management programme, to effectively govern the onboarding, renewal and resignation of certificates
- Deployment of rogue device monitoring to identify third-party or unauthorised assets on the Mercantile network
- Implementation of the new back-up technology stack, to allow cost-effective back-up and recovery processes
- Review of the current hardware security management (HSM) environment and re-establishment of the key components
- Worked on re-establishing the disaster recovery component for the HSM
- Successful onboarding of a head of data governance to start working on the data strategy

Compliance and legal risk

Mercantile operates in a highly regulated industry that requires the safeguards for its clients and systems. Industry regulations create stability for South Africa's financial institutions, which in turn creates trust with clients. Mercantile seeks to achieve the highest standards of compliance by working closely with regulators to meet all regulatory requirements.

Mercantile's compliance function is managed through policies and procedures implemented internally. These compliance policies and procedures encompass legal, regulatory and operational requirements relevant to the business. Mercantile's main objective is to ensure that existing and emerging regulations impacting business activities are continuously managed and compliance ensured.

To remain on track with compliance obligations prescribed by legislation, the compliance function follows a documented compliance plan which outlines the monitoring, review, implementation and training activities. The compliance plan is a roadmap indicating which activities must occur and when these must occur in respect of relevant legislation. This plan is formulated and approved annually by the board.

The compliance function has a centralised structure that coordinates activities across the Mercantile group and business units. Compliance is filtered down to all employees and it is every employee's responsibility to ensure compliance with regulations and policies. It is imperative that employees are familiar with all policies and procedures relevant to their business. Mercantile provides ongoing training in this regard.

The head of compliance operates under an open-door policy with the CEO and the chairman of the group audit committee. A successful compliance function is built on relationships with senior management, the board and employees, as well as with industry bodies, regulators, and other governance functions (such as internal audit and risk). The compliance function keeps senior management and the board informed about significant regulatory issues and trends evident in the compliance environment. They identify where intervention is required. Mercantile's compliance officers are charged with developing and maintaining constructive working relationships with regulators and supervisors. The compliance function works closely with business and operational units to ensure consistent management of compliance risk.

Mercantile cultivates good relationships with regulators while maintaining consistent compliance standards. As one of the member banks of BASA, Mercantile regularly engages and participates in industry-related discussions. The compliance function is made aware of these discussions to provide accurate and relevant support to business on all regulatory developments.

Mercantile strives to achieve the highest levels of compliance in accordance with professional standards and integrity. Mercantile strives to conduct business in accordance with the values set out in its code of conduct and experienced as such by stakeholders. This includes ensuring compliance with applicable laws, regulations, rules and standards. Underpinning this is a culture of compliance, which is a major aspect of the compliance framework. Mercantile believes that a good compliance regime serves the interests of all clients.

Market risk

*

Changes in the share price, interest rates or exchange rates affect Mercantile's financial position. These changes can increase or decrease the value of assets or liabilities. This constitutes market risk.

Risk movement	→
Primary board committee providing oversight	ALCO → RCMC
Primary management accountability	EXCO

*

Market risk is characterised by the adverse correlation in market prices or rates relative to positions taken. It entails revaluing financial instruments in line with prevailing market prices or rates. Market risk can be quantified as the potential change in the value of the banking book as a result of volatility to which the financial environment is susceptible between the present and future. The board is responsible for determining market risk appetite and tolerance thresholds per the risk appetite framework. These are reviewed at least annually or depending on prevailing market conditions.

Mercantile does not take proprietary trading positions and, therefore, has minimal exposure to market risk. Should the bank consider entering into a proprietary trading position, the trading committee and RCMC will have to evaluate and approve such action. The trading committee will ensure that Mercantile is sensibly positioned, considering agreed limits, policies, prevailing market conditions, available liquidity, and the risk-reward tradeoff, mainly in respect of changes in foreign currency exchange rates and interest rates.

*

Mercantile enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk which include:

- forward exchange contracts;
- interest rate and foreign currency swaps; and
- fully hedged currency options.

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

Market risk reports are produced on a daily basis, to enable active monitoring of positions against prescribed prudential and regulatory limits. In the event of a limit violation, the ALM forum records this and it is immediately corrected and reported to the ALCO.

Mercantile does not perform a detailed sensitivity analysis on the potential impact of a change in exchange rates because it does not have any proprietary trading positions. The impact of changes in foreign currency client positions is modelled to take cognisance of credit risks associated with volatility in foreign currency exchange rates, with the purpose of covering adverse positions by calling for initial and variation margins. A detailed sensitivity analysis is performed for interest rate and liquidity risk.

There was no significant change to Mercantile's exposure to market risks or the way it manages and measures these risks. Controls monitor foreign exchange exposures real-time through the treasury system. Conservative prudential risk limits are in place and associated exposures are reported to the ALCO, RCMC and the board on a regular basis.

Foreign currency risk

In terms of approved limits, Mercantile manages short-term foreign currency exposures relating to trade imports, exports, and interest flows on foreign liabilities.

Interest rate risk

*

Interest rate risk is the impact on net interest earnings as a result of increases or decreases in interest rates arising from the execution of the core business strategies and the delivery of products and services to clients. The ALM forum monitors interest rate repricing on a daily basis, and reports back to the ALCO, RCMC and the board.

Mercantile is exposed to interest rate risk as it takes deposits from clients at fixed and variable interest rates. Mercantile manages the risk by maintaining an appropriate mix between fixed and floating rate funds, and by using interest rate swap contracts and matching the maturities of deposits and assets, as appropriate.

Interest rate margin stability is managed by hedging material exposures and by not allowing any intentional proprietary interest rate positions. Swap contracts enable Mercantile to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin between lending income and borrowing costs when applied to rate-sensitive assets and liabilities. The bank is also exposed to basis risk, which is the difference in repricing characteristics of 2 floating rates, such as the South African prime rate and 3 month JIBAR.

*

To measure interest rate risk, interest rate-sensitive assets and liabilities are aggregated into defined time bands, in accordance with the respective interest repricing dates. Mercantile uses dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Mercantile prepares reports taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

To monitor the effect of the gaps on net interest income, Mercantile produces a regular forecast of interest rate-sensitive asset and liability scenarios. This includes relevant banking activity performance and trends, different forecasts of market rates and expectations reflected in the yield curve.

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate-sensitive instruments, resulting from a parallel movement of plus or minus 200 basis points in the yield curve.

Regulatory sensitivity analysis of equity – 200 basis point shift	2020 R'000
Increase	34 689
Decrease	(53 672)

The impact on equity and profit or loss resulting from a change in interest rates is calculated monthly based on management's forecast of the most likely change in interest rates. The impact of a static bank-specific favourable and unfavourable interest rate movement, of 50 and 200 basis points respectively, is calculated and monitored by the ALM forum. Various approved prudential limits are in place and monitored by the ALM forum. The results are reported regularly to the ALCO and board.

Capital and liquidity risk

*

If a client needs to access their savings or a funder requires repayment, Mercantile needs to honour its commitments as a bank. Not having cash available can results in losses. This constitutes capital and liquidity risk.

Risk movement	↓
Primary board committee providing oversight	ALCO → RCMC
Primary management accountability	EXCO

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

Liquidity management

* Liquidity risk is the risk of being unable to meet current and future cash flow and collateral requirements when they become due without negatively affecting the normal course of business. The business is exposed to daily cash needs from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees.

Mercantile measures liquidity risk by aggregating assets and liabilities into defined time bands in accordance with the respective maturity dates, which measure the mismatch level between the average time over which the cash inflows are generated and cash outflows are required.

The ALM forum monitors liquidity risk daily and reports back to the ALCO and RCMC regularly. Ultimate responsibility for liquidity risk management rests with the board. An appropriate liquidity risk management framework was developed for managing short, medium and long-term funding and liquidity requirements.

Active liquidity management seeks to preserve stable, reliable and cost-effective sources of funding. To accomplish this, management uses a variety of liquidity risk measures that consider market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities.

Analyses performed included the following:

- Contractual maturity mismatches analysis
- Monitoring daily cash flow movements and requirements, including daily settlements and collateral management processes
- Maintaining readily available, high-quality liquid assets at optimal levels (in excess of the statutory requirements), and strong financial position liquidity ratios
- An assumptions-based sensitivity analysis to assess potential cash flows at risk
- Graphical analysis of client deposits trend line
- Managing concentration risk (undue reliance on any single counterparty or counterparty bank, sector, market, product, instrument, currency and tenor)
- Maintaining sources of funding for contingency funding needs
- Monitoring daily cash flow movements and requirements, including daily settlements and collateral management processes
- Targeting a diversified funding base to avoid undue concentrations by investor, market source and maturity
- Creation and monitoring of prudential liquidity risk limits
- Maintaining an appropriate mix of term funding
- Redefining stress testing in line with prudential ratios and possible regulatory requirements in respect of 10-day liquid asset holdings (stressed to 30 days)

"The search for skilled employees is set to keep growing following Capitec's acquisition of Mercantile Bank and its push towards a business banking offering. Our implementation of technology in the business has not posed a threat to jobs, instead it has helped us improve processes, freeing up our employees to help clients bank better."

– Gerrie Fourie, CEO

Key liquidity risk metrics, which were formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through stress testing, scenario analysis and contingency planning, Mercantile actively manages its stress funding sources and liquidity buffers to ensure that it exceeds the estimated stress funding requirements that could emanate from moderate to high-stressed liquidity events. Mercantile subscribes to the Bank for International Settlement's Principles for Sound Liquidity Risk Management and Supervision. Overall, the liquidity position remains strong.

Macro-economic conditions continue to impede growth in advances and deposits as the South African banking sector is characterised by certain structural features, such as a low discretionary propensity to save, and a higher degree of contractual savings with institutions such as pension funds, provident funds, and asset management services. Mercantile raised funding while ensured compliance with the Basel III liquidity requirements.

There were no significant changes in the way in which the liquidity risk is managed and measured. Mercantile is adequately funded and able to meet its current and future obligations.

Capital Management

Read more about capital management on a group level on pages 94 to 98.

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

Remuneration report – Retail banking

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

Part 1: background statement

Letter from the REMCO chairman

It gives me great pleasure to present to you our remuneration report for the 2020 financial year on behalf of the remuneration committee.

Capitec grew strongly in the year under review, as discussed in the CEO and CFO's reports on pages 5 and 10 respectively. Headline earnings increased by 19% from R5.3 billion to R6.28 billion. This was coupled with a return on equity (ROE) of 28%. Our leadership team successfully executed our strategic priorities for the year, including the successful acquisition of Mercantile Bank Holdings Limited and its subsidiaries, and are to be commended for this in a year that saw consumers under inflationary pressures and job losses. The REMCO is satisfied with the implementation of the remuneration policy in the year. More details about the implementation of the remuneration policy is set out in Part 3 of the remuneration report.

Capitec remains focused on developing remuneration strategies that best serve stakeholder interests through sustainable growth. Remuneration is based on the successful implementation of these strategies so as to ensure that we only reward actions that advance stakeholder interests and that pay is appropriately aligned to performance. We continually monitor developments in regulation, best practice and related changes in the market that may have an impact on our approach to remuneration and regularly take input from stakeholders into consideration. We have engaged independent external remuneration consultants to ensure that our remuneration policy remains fit for purpose in a dynamic and changing environment and aligned to the achievement of our strategies. In particular, we see our remuneration policy as key to our ability to attract and retain talent in a market where the battle for talent is fierce.

During the year under review, in addition to the standing agenda items, the REMCO oversaw the following actions:

- Reviewed the total reward packages (including benefits) of employees in key critical areas e.g. IT and Business Development, to ensure that they remain competitive and aid the retention of scarce and valuable skills.
- Reviewed all variable incentive arrangements and compared them to market best practice as well as current and future viability. The REMCO agreed not to make any immediate changes but to continue to monitor the effectiveness of the current schemes in the context of attracting, retaining and incentivising employees.
- Reviewed our formal internal pay policies and processes to ensure that these policies and processes are fulfilling their objectives. This review resulted in the implementation of a malus and clawback policy for senior management variable pay.
- Reviewed the total remuneration (TR) packages of employees with critical skills together with appropriate retention mechanisms in order to ensure that these employees are remunerated in line with market. This was completed with the May 2019 increases.
- Reviewed strategy with regards to attracting and retaining staff with data analytic capabilities. Appropriate changes were made to both the remuneration bands applicable in the area as well as to the salaries of employees currently employed in these positions.

Our remuneration policy remains largely unchanged, other than for the introduction of malus and clawback which is described in more detail below.

Mercantile is adopting the Capitec Bank remuneration policy from the 2021 financial year. There are existing incentive schemes which will expire and there will be no further grants.

The REMCO saw some changes in its composition during FY2020. We bid farewell to Ms LA Dlamini who resigned from her position as REMCO chair during FY2020. We are also pleased to welcome Ms SL Botha to the REMCO.

The following sets out our overarching remuneration philosophy, business drivers, pay mix as well as future areas of focus, providing essential context for the rest of the report.

Our remuneration philosophy

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

This philosophy is integrated across all employee levels to ensure that we only reward actions that advance stakeholder interests. Our strategies and key performance indicators are communicated to employees upfront to ensure clarity, alignment, transparency and collaboration across the business. We take care to remain relevant in the market and to compete effectively for critical talent.

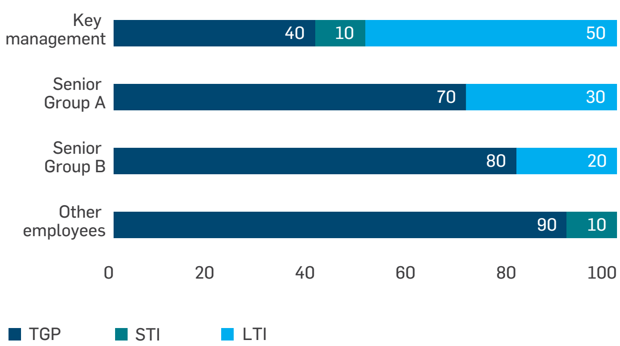
The Chairman's and CEO's report on page 5 and the CFO's report on page 10 describe in detail the internal and external factors that influenced company performance. Notwithstanding our continued sound financial results, frugality and the responsible use of our resources remain entrenched in our culture and demonstrate our commitment to our fundamental principle of affordability. This pillar underpins the sustainability of our relationships with our clients and employees. With this in mind, we drive innovation, continuous improvement and internal talent development to grow income, produce efficiencies and realise our people's potential. This, in turn, helps us to manage our salary bill while remaining competitive in acquiring and retaining the right talent.

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

Group	Focus	Strategic view	Remuneration	Period of income deferral
Key management (including CEO, CFO and executive: risk management)	Leading strategy formulation	Longest term	TGP, STI, LTI (equity instruments)	6 years
Senior management Group A	Strategic delivery (key management/ future talent succession pool)	Medium to long term	TGP, LTI (senior management performance bonus scheme and restricted share plan (RSP))	3 to 5 years
Senior management Group B (including critical roles)	Critical tactical delivery (Group A succession pool)	Medium term	TGP, LTI (senior management performance bonus scheme)	3 years
Other employees	Operational	Short term	TGP, STI	1 year

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

PAY MIX WITH ON-TARGET PERFORMANCE (%)



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

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

Employees identified as part of the future talent succession pool may be granted RSP awards to align their interests with those of the business. Awards vest in 3 equal tranches, 3, 4 and 5 years after grant, ensuring that Capitec has a strong pipeline of future successors in place.

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

Feedback from stakeholders

Shareholder engagement is a crucial part of our stakeholder engagement. Therefore, the REMCO charter specifies we should adequately disclose information to stakeholders to facilitate constructive engagement with all relevant stakeholders, including shareholders. The REMCO is pleased that in 2019 the remuneration policy and implementation report received 90.41% and 90.63% of total votes in favour, respectively.

Notwithstanding the favourable votes received, we noted the input of those shareholders who did not vote in favour of (either) the remuneration policy and the implementation report. Although we do not have any actionable outcomes to report following our engagement with shareholders, we are pleased that shareholders approached us with their concerns and that we were able to have constructive engagements. We will continue to engage with our shareholders in the year ahead.

External advice to the REMCO during the year

During the 2020 financial year, Capitec enlisted the services of independent remuneration advisers, PwC, to advise and assist with various remuneration matters, including the review of variable incentives and the implementation of the malus and clawback policy.
The REMCO is satisfied that PwC's services as rendered were independent and objective.

Forward-looking approach

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

At the 2020 AGM, shareholders will have the opportunity to vote on remuneration. In line with the JSE Listings Requirements, there will be 2 separate votes on the remuneration policy (Part 2) and its implementation (Part 3).

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

Danie Meintjes
Chairman: REMCO

During the 2021 financial year, in addition to the above, the REMCO and management will focus on the following:

Remuneration aspect	Forward-looking approach for the 2021 financial year
Internal pay equity	Capitec will, in line with its philosophy of remunerating fairly and responsibly, continue to conduct wage gap analyses and reviews, to appropriately address any internal pay discrepancies.
Mercantile onboarding	As part of the integration journey, it is intended that Mercantile will adopt Capitec's remuneration policy and framework from 1 March 2020.
Retention of critical skills: IT and digital Finance/credit/data analytics	Capitec will continue to review the total reward packages of these employees in order to ensure that these employees are remunerated in line with market and have received appropriate incentives for purposes of retention.
Attracting employees skilled in data analytics	Data analytics capability continues to be a highly sought-after skill at Capitec and many other companies as a result of the 4th Industrial Revolution. We also anticipate that, with the onboarding of Mercantile, there will be an increased focus on data analytics. We will continue to review our strategy with regard to attracting (and then retaining) individuals with the right capabilities and values for roles at Capitec.
Transformation	We will continue to ensure that our internal human resource and pay policies support transformation across Capitec.

Part 2: remuneration philosophy and policy

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

REMCO

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

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

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

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

The REMCO consists of 4 non-executive directors, 3 of whom are independent. The members of the committee as at the year-end are:

- DP Meintjes (Chairman)
- JD McKenzie
- CA Otto
- SL Botha

The REMCO met formally twice this year. In addition, the topics were discussed on less formal occasions leading up to the formal meetings. Both of the REMCO meetings were attended by the following attendees:

Composition of the REMCO as at 29 February 2020

Attendee	Role
DP Meintjes[1]	Chairman
JD McKenzie[1]	Member
CA Otto[2]	Member
SL Botha[1,3]	Member
MS du Pré le Roux[2]	Non-voting invitee
GM Fourie[4]	Non-voting invitee
NST Motjuwadi[5]	Non-voting invitee

Capacity

[1] *Independent non-executive director.*

[2] *Non-executive director.*

[3] *Chairman of the board.*

[4] *CEO.*

[5] *Executive: human resources.*

Key activities of the REMCO during the 2020 financial year

- Reviewed all variable incentive arrangements and compared them to market best practice as well as current and future viability. The REMCO agreed not to make any immediate changes but to continue to monitor the effectiveness of the current schemes in the context of attracting, retaining and incentivising employees.
- Introduced a malus and clawback policy to ensure appropriate risk adjustment mechanisms are in place.
- Considered the impact of the acquisition of Mercantile Bank in the context of remuneration and agreed the forward-looking approach with regards to Mercantile's adoption of Capitec's remuneration policy.
- As tasked by the board through the REMCO charter, confirmed that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act and King IV and take into account stakeholder feedback.
- Monitored remuneration practices and adherence to the remuneration policy, having met formally twice and informally on an ad hoc basis, as deemed necessary.
- Reviewed organisation-wide remuneration policies in line with best practice and governance standards on an annual basis, including key management bonuses and incentive schemes.
- Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust.
- Evaluated and approved all annual increases for Capitec employees, including those relating to directors: proposed non-executive directors' fees to the board for recommendation to the shareholders for consideration at the AGM.
- As required by Basel and King IV, annually consider whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk taking.
- The REMCO charter incorporates the regulations to the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, align with shareholder expectation and remain within a required risk framework. It is satisfied that these requirements are met.

General remuneration principles

The following remuneration principles support our remuneration philosophy (as explained in Part 1, from page 108).

Considering performance; determining increases

As a general principle, increases (including those of executive directors and key management) are determined by taking into account the following factors:

- Performance of the individual, team and company
- Competence
- Forecast profitability
- Economic factors, including Consumer Price Index (CPI)

Capitec continuously monitors the competitiveness of employees' total reward (TR) through external benchmarking. For non-board employees the company uses PwC's REMchannel® remuneration survey. For executive and non-executive directors (NEDs), a comparator group of JSE-listed companies similar in size in terms of market cap and/or industry is used to ensure that our employees are remunerated fairly and in line with the market. In addition, Capitec looks at the remuneration for the 4 largest South African banks, as the company's closest competitors. The following companies are used:

- Absa Limited (previously Barclays Africa Group Limited)
- Bidvest Limited
- Clicks Group Limited
- Discovery Limited
- FirstRand Limited
- Nedbank Group Limited
- Old Mutual Limited
- Remgro Limited
- RMB Holdings Limited
- Sanlam Limited
- Shoprite Holdings Limited
- Standard Bank Limited
- Vodacom Group Limited

The REMCO annually reviews and approves the salary increases of each individual member of the EXCO. The REMCO is further presented with the proposed salary increase pool for all employees across Capitec, which is then reviewed and debated by the REMCO. The REMCO approves the annual salary increase pool and provides the authority to the CEO and divisional executives to distribute the increases as appropriate.

Fair and responsible remuneration

Key management remuneration should be fair and responsible in the context of overall employee remuneration. As a responsible employer, Capitec is sensitive to socio-economic challenges and the need for corporates to address unfair income disparities in society.

In our journey to do our part in fighting unemployment, we annually appoint matriculants who are put through an intense 2 year training programme to provide them with the skills and experience necessary to help our clients in branches across South Africa and help us grow our business. Although these employees are initially appointed at a frugal starting salary, their individual performance is reviewed every 6 months, at which time their salaries have the potential to increase at a rate greater than the inflation rate.

In addition, we constantly seek to ensure that the implementation of our remuneration policy results in fair and responsible remuneration and that employees have access to flexible employee benefits that are affordable and accessible.

Continuous efforts

Continuous efforts in this regard include:

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

Stakeholder engagement

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

- the result is communicated with a SENS announcement;
- due shareholder engagement processes take place. We welcome feedback from our shareholders and will use various methods of shareholder engagement to best accommodate the various shareholders and ensure proper and meaningful engagement. These methods may include written correspondence, individual meetings with large shareholders and REMCO representation at shareholder engagement sessions. Any engagement will be led by the REMCO chairman; and
- in the following year's remuneration report, we provide details on the engagement and steps taken to address legitimate and reasonable objections and concerns.

Pay mix

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

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

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

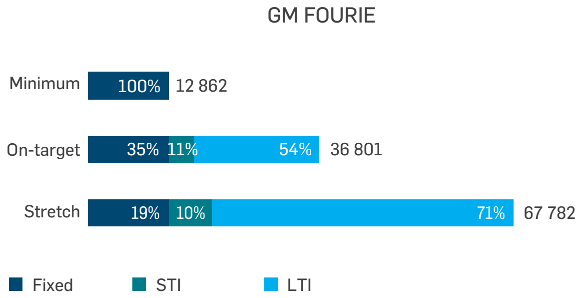
Key management pay mix

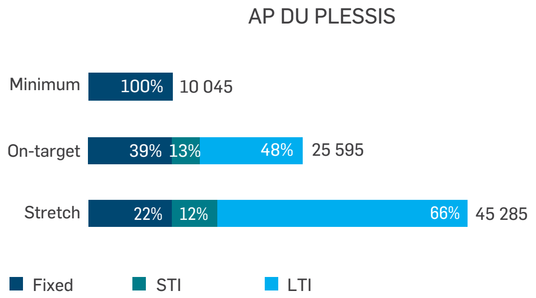
The key management pay mix proportional split between TGP, STI and LTI will not change significantly from the 2020 to the 2021 financial year. The principles determining the key management pay mix are:

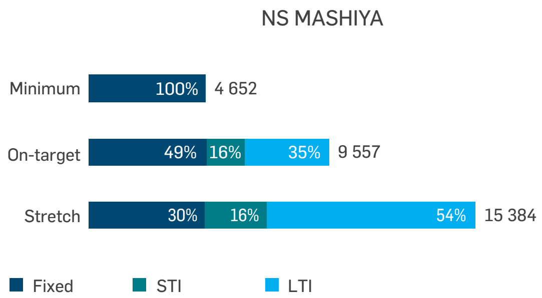
- TGP should be market competitive and sufficient in quantum to ensure that key management does not rely on variable remuneration-based short-term goals and decision-making.
- STI earning potential is conservative compared to the market, which supports Capitec's key remuneration principle of long-term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

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

Element	Calculation minimum	On target	Above target
TGP	TGP at 1 March 2020, see page 123. Benefits assumed in line with those paid in the 2020 financial year and contributions to the share purchase scheme assumed to be zero.		
STI	Nil	33% of annual TGP	54% of annual TGP
LTI	Nil	The maximum number of instruments granted in the 2020 financial year that might vest multiplied by the fair value on grant.	The maximum number of instruments granted in the 2020 financial year that might vest multiplied by the share price on grant.







TGP

TGP for key management is informed by:

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

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

STI

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

Key aspects of the STI (key management bonus)

The annual STI is designed to recognise the achievement of company financial performance measures and a combination of strategic measures linked to Capitec's overall business strategy. The STI is self-funded and settled in cash.

Capitec takes the following holistic approach to determining the STI value:

- The STI value is based primarily on the achievement of company financial performance measured as year-on-year HEPS growth. Incremental increases above on-target performance correlate directly with the percentage of STI payable.
- Capitec also takes the achievement of personal KPIs into account as part of its holistic approach in reviewing performance. Personal KPIs are contracted with the REMCO by each member of key management and are continuously monitored throughout the year. While not specifically linked to the 6 capitals (set out by the International Integrated Reporting Council), the personal KPIs cover a broad spectrum of capitals and, most importantly, are aligned with Capitec's strategic priorities. These measures are set out in a balanced scorecard under the following categories:
  - Efficiency
  - Business delivery
  - Diversity income stream
  - People
  - Quality clients
  - Innovative digital and data
  - Service experience
- Targets are set by the REMCO annually to ensure that they are truly stretching and only reward exceptional performance. At the end of the financial year, the REMCO assesses the level of financial and personal performance and determines the STI payment to be made to each member of key management.
- Where a key manager's responsibilities are predominantly within a particular functional area of the company structure, the payment quantum is weighted towards the performance of that area.
- Although the STI is uncapped, the additional amount earned for performance above target is minimal. This ensures that the STI earned remains modest when looking at the pay mix as a whole.
- Failing on-target performance in either personal or company performance will warrant no payment.

Key management's earning potential for STI:

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

LTI

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

Senior management performance bonus scheme

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

Characteristics of the scheme include:

- Cash-settled
- Performance-based criteria include minimum personal performance and minimum company performance (growth in HEPS) to qualify for an award
- Benefits vest and pay out over 3 years in 3 equal tranches
- Forfeiture of all balances in the scheme on termination of employment other than formal retirement, death, permanent disability or retrenchment
- 75% of balances in the scheme are paid out on early retirement from 60 to 64 years, and the full balance is paid at the normal retirement age of 65
- In order to provide for greater alignment with shareholders and to allow participants to benefit from the success of the company, participants can elect that all or a portion of the award be delivered in Capitec shares under the RSP (see below). Where employees opt for shares, they will also receive a match of 10% of their award in additional restricted shares. The shares will vest in equal tranches in years 2 and 3

Key management LTI

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

Share options

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

Share appreciation rights

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

Performance measures and vesting period

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

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

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

Targets are measured over a cumulative 3 year performance period. After the initial 3 year financial performance period, vesting is subject to continued employment for years 4, 5 and 6. The extent to which the performance measures are met will determine the percentage vesting. If the HEPS measure is met, but not the ROE measure, 50% will vest and vice versa. If both measures are met, 100% will vest, and if neither are met, nothing will vest.

Restricted share plan – future talent

The RSP will be used as a retention tool for staff identified in the future talent succession pool to align these employees' interests with those of the business and ensure that we have a strong pipeline of future successors in place. Key management does not participate in the RSP. Succession candidates may be awarded restricted shares with no performance measures, equal to up to 50% of their annual guaranteed remuneration package. The shares will be subject to a restriction on disposal for 2 years. In the 3rd year, participants shall be entitled to sell up to one-third, in the 4th year up to two-thirds, and in the 5th year all the shares. Participants receive all shareholder rights from the award date, including dividend and voting rights.

Termination of employment and effect on unvested LTI

In the case of just-cause dismissal or resignation, all unvested LTIs are forfeited. In the case of death or ill health, the REMCO has discretion to allow automatic vesting of all unvested LTIs. The following table sets out the vesting of LTI on retirement, subject to the REMCO's discretion:

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

Share dilution usage for LTI

Since the establishment of Capitec, 17.6 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these exercised options. The balance of ordinary shares required to settle options that have been exercised were acquired in the market.

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

The past dilutive effect of issues of ordinary shares for purposes of the Trust since the inception of Capitec remains at 5.04% of the issued ordinary share capital of Capitec as at 29 February 2020.

The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 29 February 2020.

Alignment of remuneration with risk

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

- inherent risks in the business model;
- the risk-taking and delegation structure; and
- the status of the risk barometer as an indicator of the existence and management of risk.

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

Executive director and key management contracts

Executive directors and other members of key management do not have fixed-term or bespoke key management contracts, but are employed in terms of the group's standard contract of employment. The notice period for termination of service is 1 calendar month. This was amended during the 2015 financial year so that the notice period for new key management appointments is 3 months. Normal retirement age ranges from 60 to 65 years, unless the board requests to extend this term.

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

Upon termination of employment, all STIs are forfeited. Unvested LTIs will be treated in accordance with the LTI policy (refer to page 115, termination of employment and effect on unvested LTI).

Risk and compliance employees' remuneration

Remuneration levels and structures for risk and compliance employees are determined as part of the annual budget process and are subject to oversight by the REMCO. This happens independently of the relevant risk departments. The audit committee ensures that these employees are correctly and fairly remunerated. During the year under review, Capitec introduced a further measure in the form of a bonus cap to ensure that the remuneration of employees in internal audit roles are in line with best practice. Bonuses for internal audit employees are capped at 500% of an employee's monthly salary (41.67% of their annual salary).

Minimum shareholding requirements (MSRs)

MSRs expose key management to the same risks and rewards faced by Capitec's shareholders. Capitec's key management voluntarily hold an outright share ownership (through direct shareholding and not unvested LTI) that is not less than the value of the following proportion of their respective TGP as at 29 February 2020.

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

The minimum holding should be retained until termination of employment. The percentage shareholding should be achieved within 5 years from 1 March 2016 or within 5 years of a key management appointment.

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

Non-executive director fees

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

NEDs do not qualify for any STI.

No new LTI allocations are made to NEDs. However, previous tenure as a member of key management may result in legitimate vesting of a previously awarded LTI. NEDs are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. NEDs who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved NED fees accordingly.

Proposed 2021 NED fees

During the year under review, Capitec conducted an external benchmarking exercise as part of reviewing the NED fees. The same comparator group was used as for the executive directors, as set out on page 118. In considering the 2021 NED fees recommended by management, the following factors were noted:

- The difficulty of attracting suitable NEDs who are fit and proper
- The increase in corporate malfeasance and corporate failures that has heightened the governance and oversight role of NEDs
- Ongoing changes to the regulatory landscape and regulatory frameworks that have increased the governance burden on NEDs
- Personal and professional risk associated with holding such office

Increases approved by the REMCO in February 2020 serve to bring the fees in line with the median of the comparator group while remaining below the average when measured against the 4 traditional banks. In light of the recent unprecedented developments related to COVID-19 it was decided that the NEDs would not take an increase for the 2021 financial year.

Directors' fees (R'000)	2020	2021	Change %
Chairman of the board	**2 500**	2 500	–
Lead independent director	**300**	300	–
Directors	**450**	450	–
Chairman of the audit committee	**450**	450	–
Chairman of the risk and capital management committee	**450**	450	–
Chairman of the REMCO	**350**	350	–
Chairman of the social and ethics committee	**200**	200	–
Audit committee member	**200**	200	–
Risk and capital management committee member	**200**	200	–
REMCO member	**150**	150	–
Social and ethics committee member	**80**	80	–
Committee member	**70**	70	–
Directors' affairs committee	**–**	–	–

Part 3: Implementation report

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

Capitec performed well during the year, with a resulting HEPS growth of 19% and ROE of 28%. In keeping with our remuneration philosophy, we balanced strong financial performance with the principle of frugality to ensure sustainability of our relationships with our clients, shareholders and employees.

This part of the report provides insight into the implementation of our remuneration policy during the year ended 29 February 2020. It details the remuneration paid to both executive directors and non-executive directors, in particular:

- The TGP increases approved in line with the Capitec TR policy approach
- STI performance versus the outperformance of targets set
- The LTI awards granted in the reporting year to eligible employees ensuring continued retention and alignment with shareholders and pay-for-performance philosophy
- The LTI awards vesting in the reporting year
- The fair value of unvested LTI awards remaining, which demonstrated alignment between directors and shareholders
- An overview of the incremental TR growth over the past 4 years compared to some key financial metrics (being the value added to shareholders in terms of metrics such as HEPS, ROE and share price growth)
- A single remuneration figure for the value of actual TGP paid, STI paid and any LTIs vesting in the 12 months following year-end
- The executive directors' shareholding compared to minimum shareholding requirement
- The NED fees paid to individuals for their services as board and committee members as approved by shareholders.

TGP

The TGP increases awarded to executive directors were in line with the average awarded to all employees over the 2020 financial year.

The table below sets out the approved increases in executive director TGP for the 2020 financial year. Note that the actual TGP figures paid are included in the single-figure table (on page 123). The reason for deviation of actual payment from approved payment is the inclusion of the risk benefit (based on approved TGP), any unpaid leave the individual may have taken in a particular year, and the increases only taking effect from 1 May every year.

Executive directors	2020 (R)	2019 (R)	Change (%)
GM Fourie	13 000 000	11 825 000	9.9%
AP du Plessis	10 106 455	9 271 976	9.0%
NS Mashiya	4 652 100	4 365 168	6.6%

STI

As set out in the remuneration policy, a small proportion of key management remuneration is delivered through the STI. The REMCO believes that the performance targets set annually are stretching and only reward appropriate levels of performance.

The performance measure table below compares the executive directors' STI paid with on-target earning potential, the company performance measure, and targets on which the payment was based.

Performance measure	Performance targets*				Actual performance
Percentage year-on-year growth in HEPS	14.9%	15.0%	19.0%	23.0%	18.6%
Percentage of TGP payable	0.0%	33.3%	40.0%	46.7%	39.3%

* *Straight-line vesting between points*

Based on the GN 4/2020 issued by the Prudential Authority the executive directors will not receive cash bonuses for the 2020 financial year despite the fact that targets were met both in terms of Capitec's performance and their personal KPIs.

LTI

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

LTI awards granted in the reporting year

In line with our remuneration policy as set out in Part 2 (page 111), grants of options and SARs were made to executive directors during the year. Options and SARs are subject to the performance measures set out on page 115. Details of the number of shares and the options price are set out in the unvested awards table on page 121.

LTI awards vesting in the reporting year

For the financial year ended 29 February 2020, Capitec has options and SARs both with and without performance measures vesting. All awards vest in equal tranches in years 3, 4, 5 and 6. Capitec has reviewed the methodology set out in the King IV guidance notes issued by the South African Reward Association (SARA) and the Institute of Directors in South Africa (IoDSA). For options and SARs that have performance measures, the guidance notes suggest that the value of options and SARs is include in the single-figure table at the year-end aligned with when the performance period ends. As Capitec uses tranche vesting, there is a significant timing misalignment between the end of the performance period (3 years) and the achievement of the employment condition and resultant vesting (years 3, 4, 5 and 6). For this reason, the REMCO has taken the decision to report the value in the single-figure table in respect of the options and SARs that are due to vest within 12 months of financial year-end regardless of whether performance measures are attached or not. This ensures consistency of treatment between awards with and without performance measures, and more accurately reflects the economic value to participants at the time of vesting.

Achievement of performance measures

The table below sets out the achievement of performance measures for the 2018 options and 2018 SARs. The performance measures are the same for both instruments.

Performance measure	Weighting	Performance target	Actual performance %	Actual vesting %
HEPS	50%	Growth exceeding CPI + GDP+4%	18.6	50
ROE	50%	Outperform the average ROE of the 4 traditional banks in South Africa	28	50

The table below sets out the resultant number of shares available for vesting based on the achievement of performance measures.

Executive	Type of instrument	Shares awarded	Performance condition achievement %	Strike price R	Number of shares available for vesting
GM Fourie	Option	25 507	100	705.93	25 507
	SARs	25 507	100	705.93	25 507
	Total				51 014
AP du Plessis	Option	15 714	100	705.93	15 714
	SARs	15 714	100	705.93	15 714
	Total				31 428
NS Mashiya	Option	5 414	100	705.93	5 414
	SARs	5 414	100	705.93	5 414
	Total				10 828

The table below sets out details of the value of awards included in the single-figure table on page 123. We used a year-end share price of R1 299.99.

Executive	Type of instrument	2016 awards R'000	2017 awards R'000	2018 awards R'000	Value of shares included in single-figure table R'000
GM Fourie	Options	21 227	7 582	3 788	32 597
	SARs	10 109	7 582	3 788	21 479
	Total				54 076
AP du Plessis	Options	16 115	4 635	2 334	23 084
	SARs	7 674	4 635	2 334	14 643
	Total				37 727
NS Mashiya	Options	6 746	1 611	804	9 161
	SARs	3 900	1 611	804	6 315
	Total				15 476

LTI unvested awards

The following table sets out the unvested instruments remaining for each executive director. It includes a calculation of the indicative value of unvested instruments at the end of the 2019 financial year and a calculation of the cash value of instruments exercised in the 2020 financial year. The methodology used in determining these values is in line with the guidance notes issued by SARA and IoDSA.

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

- The first grant with performance measures applicable was made in April 2016 (FY2017) and the first tranche vested in April 2019. As such, the table sets out the awards which vested in respect of this first tranche, as well as the number of awards which lapsed following the testing of the performance measures.
- The indicative value of unvested instruments is an estimated value and is not an actual reflection of the value of the award that will vest in future.
- The cash value of instruments exercised in the year represents the gain made on the exercise of instruments during the year.
- The indicative value of unvested instruments and the cash value of instruments exercised in the year should not be added together.

Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Number of instruments lapsed	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number of instruments exercised in year	Share price at which instruments were exercised R	Cash value of instruments exercised in year R'000
	A	B	C	D	E = A - C - D	F	G	H	I = G x (H - B)
GM Fourie									
Options									
2014	17 500	201.40	17 500		–	–	4 375	1 370.44	5 115
2014	27 500	209.83	20 625		6 875[(1)]	4 322	–	–	–
2015	18 330	196.43	18 330		–	–	4 583	1 370.44	5 380
2016	91 487	371.88	68 616		22 871	21 387	22 872	1 370.44	22 839
2017	36 677	473.05	9 170		27 507	23 211	9 170	1 370.44	8 229
2018	25 507	705.93	–		25 507	16 544	–	–	–
2019	22 957	881.76	–		22 957	12 321	–	–	–
2020	**20 428**	**1 175.01**	**–**		**20 428**	**8 576**	**–**	**–**	**–**
SARs									
2014	17 500	201.40	17 500		–	–	4 375	1 384	5 174
2014	27 500	209.83	20 625		6 875[(1)]	4 322	–	–	–
2015	6 225	0.01	6 225		–	–	1 557	1 384	2 155
2016	31 106	0.01	23 330		7 777	7 272	7 776	1 384	10 762
2017	36 677	473.05	9 170		27 507	23 233	9 170	1 384	8 353
2018	25 507	705.93	–		25 507	16 544	–	–	–
2019	22 957	881.76	–		22 957	12 321	–	–	–
2020	**20 428**	**1 175.01**	**–**		**20 428**	**8 576**	**–**	**–**	**–**
AP du Plessis									
Options									
2014	17 500	201.40	17 500		–	–	4 375	1 290.2	4 764
2015	23 746	196.43	23 746		–	–	5 937	1 290.2	6 494
2016	69 454	371.88	52 091		17 364	40 985	17 363	1 290.2	15 945
2017	22 420	473.05	5 605		16 815	14 189	5 605	1 290.2	4 580
2018	15 714	705.93	–		15 714	10 192	–	–	–
2019	15 121	881.76	–		15 121	8 116	–	–	–
2020	**12 705**	**1 175.01**	**–**		**12 705**	**5 334**	**–**	**–**	**–**
SARs									
2014	17 500	201.40	17 500		–	–	4 375	1 365.55	5 093
2015	8 065	0.01	8 065		–	–	2 017	1 365.55	2 754
2016	23 614	0.01	17 711		5 903	13 935	5 903	1 365.55	8 061
2017	22 420	473.05	5 605		16 815	14 189	5 605	1 365.55	5 002
2018	15 714	705.93	–		15 714	10 192	–	–	–
2019	15 121	881.76	–		15 121	8 116	–	–	–
2020	**12 705**	**1 175.01**	**–**		**12 705**	**5 334**	**–**	**–**	**–**
NS Mashiya									
Options									
2016	35 500	539.88	26 625		8 875	11 703	17 750[(2)]	1 370.50 / 1 373.63/ 1 455.29[(2)]	15 511
2017	7 791	473.05	1 948		5 843	4 931	1 948	1 147.18	1 313
2018	5 414	705.93	–		5 414	3 512	–	–	–
2019	4 749	881.76	–		4 749	2 549	–	–	–
2020	**3 509**	**1 175.01**	**–**		**3 509**	**1 473**	**–**	**–**	**–**
SARs									
2016	12 000	0.01	9 000		3 000	3 956	6 000	1 370.50 / 1 455.29	16 955
2017	7 791	473.05	1 948		5 843	4 931	1 948	1 147.18	1 313
2018	5 414	705.93	–		5 414	3 512	–	–	–
2019	4 749	881.76	–		4 749	2 549	–	–	–
2020	**3 509**	**1 175.01**	**–**		**3 509**	**1 473**	**–**	**–**	**–**

(1) *As at year-end, the 4th tranche of GM Fourie's 2016 options and 2016 SARs granted in November 2013 had vested but not yet been exercised.*
(2) *The tranche that vested during the previous financial year that was only exercised during the current year was exercised in 2 transactions: 4 188 options were exercised at a share price of R1 370.50, and 4 687 options were exercised at a share price of R1 373.63.*

Key management value creation

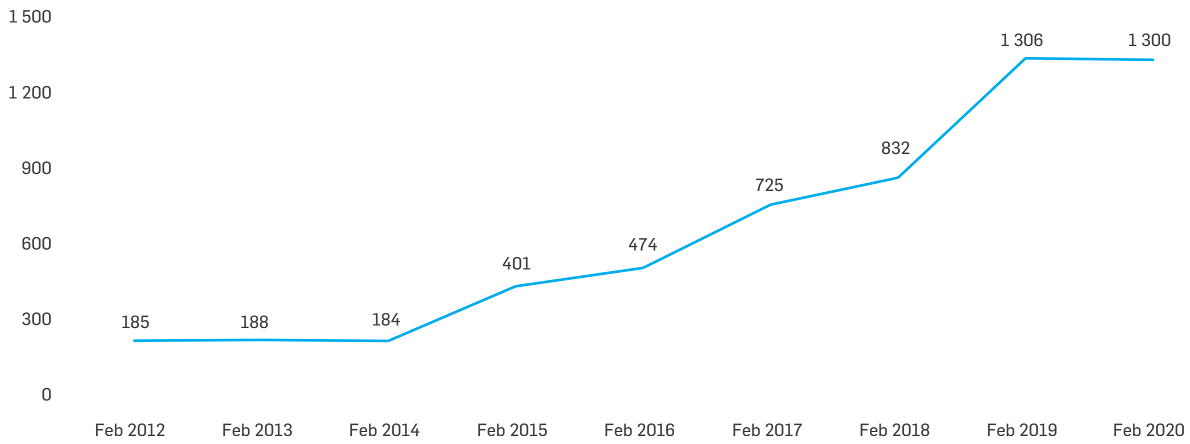
The table below compares the headline earnings of Capitec over the past 6 years, with the total executive remuneration paid in that year. The REMCO is satisfied that the level of executive pay as a proportion of headline earnings is reasonable considering the value created for investors over the period,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

Performance versus incremental remuneration increase	**Headline earnings R'm**	**Total executive remuneration R'm***	**Remuneration as percentage of headline earnings %**	**ROE %**
2020	6 277	101	2	28
2019	5 292	109	2	28
2018	4 461	84	2	27
2017	3 793	90	2	27
2016	3 222	101	3	27
Value created over 4 year period versus remuneration cost differential	3 055	–		

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

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

CAPITEC HOLDINGS LIMITED SHARE PRICE (JSE: CPI)



Executive director single figure

The following table illustrates a single remuneration figure for the value of guaranteed pay, benefits, STI and LTI. The corresponding value for the preceding year is included. The decrease in the single remuneration figure between 2019 and 2020 is mainly due to the increase in the share price decreasing from 57% to 0.5%

Executive directors R'000	Guaranteed pay	Benefits	TGP	Contribution to employee share purchase scheme	STI	LTI	TR for the year
2020							
GM Fourie	**12 804**	**58**	**12 862**	**–**	**5 113**	**54 077**	**72 052**
AP du Plessis	**9 967**	**78**	**10 045**	**–**	**3 975**	**37 727**	**51 747**
NS Mashiya	**4 605**	**47**	**4 652**	**–**	**1 830**	**15 476**	**21 958**
	27 376	**183**	**27 559**	**–**	**10 918**	**107 280**	**145 757**
2019							
GM Fourie	11 646	30	11 676	–	4 651	78 669	94 996
AP du Plessis	9 106	74	9 181	–	3 647	52 163	64 991
NS Mashiya	4 314	44	4 358	–	1 718	13 966	20 042
	25 066	148	25 215	–	10 016	144 798	180 029

Executive director shareholding

In the 2017 financial year, the REMCO introduced MSRs for executive directors and other key management (see the related section under Part 2: Remuneration philosophy and policy, on page 111.)

The REMCO is satisfied that the CEO, CFO, and executive: risk management continue to meet their MSRs and exhibit a strong buy-in to the principle of alignment with shareholder interests.

The percentage shareholding as at financial year-end is:

Position	% shareholding in proportion to TGP
CEO	10 736%
CFO	11 862%
Executive: risk management	341%

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

Non-executive director actuals (as approved at previous AGM)

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

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

Non-executive directors (R'000)	2020	2019	Change %
R Stassen[(1)]	**625**	1 390	(55)
SL Botha[(2)] (chairman)	**1 875**	N/A	N/A
CA Otto	**870**	685	27
LA Dlamini[(3)]	**293**	660	(56)
K Makwane	**850**	445	91
JD McKenzie	**1 550**	1 165	33
DP Meintjes[(4)]	**738**	84	779
JP Verster	**1 100**	795	38
MS du Pré le Roux	**520**	325	60
NS Mjoli-Mncube[(5)]	**113**	325	(65)
PJ Mouton	**720**	685	5
Total	**9 254**	6 559	41

(1) *Retired on 31 May 2019.*
(2) *Appointed as chairman of the board on 1 June 2019.*
(3) *Resigned 30 June 2019.*
(4) *Appointed chairman of REMCO 14 October 2019.*
(5) *Retired on 31 May 2019.*

Remuneration analysis

Bank		Strategic management[(2)]	Senior management	Other employees	Total	Financial statement reference
Employees	Number	12	122	13 895	14 029	Key performance indicators
Remuneration awards						
Fixed	R'000	67 925	199 450	3 308 640	3 576 015	
Cash remuneration	R'000	67 925	199 450	3 308 640	3 576 015	Note 28
Variable		154 807	108 624	262 729	526 160	
Cash staff performance bonus	R'000	25 495	1 536	262 729	289 760	
Cash bonus bank	R'000	2 562	103 245	–	105 807	
Share options[(1)]	R'000	62 210	2 824	–	65 034	Note 28
Share appreciation rights[(1)]	R'000	64 540	1 019	–	65 559	Note 28
Variable remuneration						
Employees receiving awards	Number	12	122	13 895	14 029	
Non-deferred	R'000	25 495	36 743	262 729	324 967	
Deferred	R'000	129 312	71 881	–	201 193	
Outstanding deferred remuneration	R'000	414 126	123 671	–	537 797	
Cash bonus bank	R'000	5 324	104 477	–	109 801	Note 22
Share options[(1)]	R'000	226 406	10 014	–	236 420	Note 44
Share appreciation rights[(1)]	R'000	182 396	9 180	–	191 576	Note 45
Deferred remuneration paid out	R'000	343 590	123 380	–	466 970	
Cash bonus bank	R'000	1 955	77 228	–	79 183	
Share options[(1)]	R'000	209 227	29 000	–	238 227	
Share appreciation rights[(1)]	R'000	132 408	17 152	–	149 560	
Employees' exposure to adjustments	R'000	414 126	123 671	–	537 797	
Implicit adjustments	R'000	408 802	19 194	–	427 996	
Post explicit adjustments	R'000	5 324	104 477	–	109 801	
Total remuneration exposed to adjustments	R'000	414 126	123 671	–	537 797	
Implicit adjustments	R'000	408 802	19 194	–	427 996	
Post explicit adjustments	R'000	5 324	104 477	–	109 801	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

(1) *The remuneration relating to share options and share appreciation rights for strategic management includes the costs relating to 3 executive officers who retired during previous financial years.*
(2) *Strategic management is defined as the 10 members of EXCO and the 2 annually elected development members.*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Remuneration report – Business banking

Remuneration philosophy and governance principles

The remuneration philosophy is designed to attract, motivate and retain suitably qualified employees to achieve the strategic objectives of the company. In addition to this, specific remuneration practices are required for executives and senior management as they make a direct impact on driving business results, profitability and increased stakeholder value.

The remuneration philosophy encapsulates 5 elements: compensation, benefits, work-life balance, performance-based recognition, and the development of career opportunities. The company is committed to providing managers with the tools, training and information necessary to make sound remuneration decisions.

The guiding principles of the remuneration philosophy are to:

- ensure sound governance policies and compliance with all statutory and other relevant regulations;
- support the achievement of the company's strategic objectives;
- help communicate the company's values and performance expectations;
- drive and support desired employee behaviour and actions;
- achieve and maintain market competitiveness of remuneration;
- motivate and engage all employees in the organisation;
- manage remuneration costs;
- ensure a strong link between group performance and pay;
- ensure a strong link between individual performance and remuneration; and
- recruit and retain high performers; and
- ensure equity.

These policy objectives are achieved by ensuring remuneration is reflective of applicable market conditions, the company's statutory obligations, the level of accountability assigned to individuals, and the provision of incentives to deliver outstanding performance, while providing organisational flexibility and operational efficiency.

The policy is based on the following guiding principles:

- The structure of the remuneration does not encourage excessive and imprudent risk-taking.
- The decision-making process regarding remuneration is robust, well-reasoned, compliant with relevant laws and regulations and approved by competent corporate bodies.
- The applicability to identified employees:
  - ensuring that the total remuneration and composition of remuneration is coherent with the group's governing structure and aligned to the risk profile tolerated by the group; and
  - safeguarding the ratio between the fixed and variable components of remuneration, indexing it to the achievement of quantifiable and specific objectives, aligned with the long-term interests of the company.
- The balance of remuneration composition through:
  - alignment of remuneration and performance; and
  - alignment of remuneration and long-term corporate interest.
- Disclosure of the remuneration policy and specific objectives, and complying with transparency as required by relevant competent authorities.

All remuneration elements are reviewed periodically and monitored to align with the group's risk management strategy. The review and recommendations take into account changes in legislation, competitive practices in the market and the results of comprehensive research on the factors driving employee satisfaction, commitment and productivity in the organisation. The focus is therefore on remuneration for position, competence and performance. The remuneration policy has been drafted taking into account applicable South African labour legislation. The company aims to ensure that remuneration practices are fair, equitable and competitive, and align to risk and reward.

Each manager is responsible for ensuring that performance management processes are completed bi-annually for employees and that remuneration increases are based on performance and within policy guidelines, to ensure equity and consistency throughout the group. The performance management process is aligned to the balanced scorecard through key result areas (KRAs), which include financial and non-financial measurement criteria.

The main components of compensation are described below:

(i) Total guaranteed package

The total guaranteed package includes the monthly salary plus non-cash fringe benefits, including medical aid, risk cover and retirement savings contributions. All employees are given a certain degree of flexibility to structure their packages to include a 13th cheque, select the appropriate level of travel allowance and choose to participate in a tax-saving benefit to pay for school or tertiary institution fees.

(ii) Short-term incentives

Short-term incentives form an important component of variable pay. The objectives of the short-term incentive scheme are to reward outstanding performance and motivate employees to perform beyond expectations and drive the group's results. Incentives are also an important element of establishing a performance culture and retaining the services of key contributors.

Measurement criteria are aligned to strategic objectives, financial growth and performance targets, as well as client service satisfaction targets and culture transformation. The group's performance determines the size of the bonus pool and individual performance determines the actual incentive percentage (of total guaranteed pay) that is awarded within the determined range.

Risk measures are part of determining the bonus pool value and also of individual KRA measures. Risk decision-making is separated from sales. There is a clear separation between the management and approval of risk and the sale of risk products. Credit risk is the main risk that the group faces (as there is no proprietary trading activity) and it is managed through different levels of governance, ranging from the mandates of credit managers and the head of credit, to the mandates of the CC and the approval by the RCMC of the board. All these risk mandates are informed by the risk appetite defined by the group.

> "Mercantile Bank only has about a 1% share of the business banking market. If we can grow that to 5% in the next few years, that would be an achievement already."
>
> **– Gerrie Fourie, CEO**

Management and the employees of the risk, compliance management and internal audit functions operate in accordance with the provisions of the Banks Act and Regulations, as well as industry best practices and governance requirements and are effectively independent of sales and are compensated appropriately. Performance measurements for these functions are principally based on the achievement of the objectives of their function. The overall size of the bonus pool in which they participate is a function of the overall performance of the group; hence, if no bonus pool is approved for the company, there can be no bonus participation for these functions – there are no guaranteed bonuses. This reflects our commitment to achieving a balance between the prudent management of remuneration within the context of both our risk appetite and risk profile, and the need to attract, retain and motivate key talent to enable the delivery of our strategic objectives.

Based on GN 4/2020 issued by the Prudential Authority the executive directors will not receive cash bonuses for the 2020 financial year despite the fact that targets were met both in terms of Mercantile's performance and their personal performance.

(iii) Long-term incentives

The purpose of this element is to attract and reward key employees whose contribution within the next 3 to 5 years is viewed as critical, and whose retention is regarded as a priority.

Compensation of strategic employees, senior managers and other employees

2020 Remuneration amount (R'000)		Strategic management	Senior management	Other
Fixed remuneration	Number of employees	2	21	554
	Total fixed cash-based remuneration: (none of which is deferred or linked to shares or other share-linked instruments)	2 653	10 785	69 197
Variable remuneration	Number of employees	2	20	554
	Total variable cash-based remuneration (short-term incentive)	–	11 890	20 253
	Number of employees	2	20	15
	Share-linked instruments paid in the 2020 financial year	2 734	26 928	3 240
	21 employees were granted 26.1 million share-linked instruments during the 2020 financial period, 6.7 million of these awards vested pro rata on change of control in November 2019 and the balance will vest in 2022.			
Total remuneration (fixed and variable)		2 653	22 675	89 450

The senior managers are employees whose professional activities have a material impact on risk-taking decisions, as well as the senior responsible employees in all of the control functions and areas of responsibility.

Non-executive director's fees

The remuneration of non-executive directors takes into account the responsibilities of the role and the skills and experience of the individual, without losing sight of the requirement for market-related, fair and defendable compensation from a regulatory and stakeholder viewpoint.

Non-executive directors	2020 R'000
GP de Kock (chairman)[(1)]	278
L Hyne[(2)]	78
AT Ikalafeng[(2)]	66
D Motsepe[(2)]	74
TH Njikizana[(1)]	273
SL Botha (chairman)[(3)]	–
JD McKenzie[(3)]	–
JP Verster[(3)]	–

(1) *Resigned 5 February 2020.*
(2) *Resigned 29 November 2019.*
(3) *Appointed 29 November 2019.*

Going forward

From the 2021 financial year the Mercantile remuneration policy will correspond with Capitec's policy. Refer to Remuneration report – Retail banking on pages 108 to 124.


55%
CAPITEC

Social and ethics report

The social and ethics committee monitors the group's activities with regard to:

- social and economic development;
- good corporate citizenship;
- environmental, health and public safety;
- impact of the company's activities and services;
- consumer relations; and
- labour and employment relationships.

The committee functions within the ambit of an annually reviewed board-approved charter and meets twice a year.

The members of the social and ethics committee are:

- Kabelo Makwane (independent non-executive director and the chairman);
- Danie Meintjes (independent non-executive director); and
- Nkosana Mashiya (executive: risk management).

Read more about the committee members' qualifications and experience in their profiles on pages 65 to 67.

The executive: human resources, operational risk manager and company secretary are invited to attend all meetings of the committee. The chairman may invite such executives and senior management as appropriate to attend and be heard at meetings of the committee.

The company demands a high standard of ethical conduct in its business practices and its dealing with stakeholders. Employees have access to a code of ethics and a range of policies giving guidance on ethical conduct on the company's intranet, and are encouraged to ask questions, report suspicious activities to management or through Tip-offs Anonymous and to uphold the Capitec Way. Ethics coaching is incorporated in general employee training to guide employees with regard to expected ethical conduct. The legal, compliance, internal audit, forensic and training departments all form part of the assurance process to facilitate an ethical outcome in the company's activities.

The committee reviewed the matters over which they are required to preside during the year and, based on the reports submitted to the committee and discussions with management, is of the view that appropriate policies, systems and internal controls are in place, supported by a conscientious management team, to promote ethical conduct, good corporate citizenship, environmental care, fair labour practices and sound consumer relations.

The committee is of the opinion that the Capitec group complies, in material respects, with legislation, regulations and codes of best practice relevant to the committee's mandate. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

Kabelo Makwane
Chairman of the social and ethics committee

Group activities monitored during the year

Social and economic development	Total economic value distributed in the 2020 financial year – page 37 Our fundamentals and values – pages 28 and 27 Human rights – page 27 Zero tolerance for fraud and corruption – page 27 Employment equity – pages 42 to 44 B-BBEE – page 53
Good corporate citizenship	Social responsibility – pages 38 to 40; and pages 50 to 52 Our business model – pages 34 to 35 Our awards – page 68
Environment health and public safety and the impact of the company's activities and of its products and services	Pages 38 to 40; 132 to 135
Consumer relations and commitment to consumer protection laws	Pages 22 and 91 The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.
Labour and employment	Pages 41 to 49; 58 to 60

Our interaction with the environment

South Africa, in accordance with the global focus on climate change, is committed to reducing domestic greenhouse gas (GHG) emissions. Corporate entities are the largest contributors to GHG emissions. For this reason, all corporates are responsible for contributing to this effort. Capitec acknowledges this responsibility and the manner in which we live our core values underpins this responsibility.

Our new head office

Capitec acknowledges the right of our employees, clients and communities to exist and work in an environment conducive to sustainable development. We committed ourselves to a high standard of environmental protection throughout the design and construction of the new Capitec head office building in Techno Park.

The design approach embraced the use of green initiatives where they made business sense as part of a sustainable solution. Through a holistic approach by the architect and engineers, green initiatives were incorporated in the design.

Energy efficiency

Performance glazing

In the central atrium large overhead skylights allow natural sunlight to penetrate the building. Low-emissivity glass minimises the amount of infrared and ultraviolet light that comes through the glass and improves the thermal performance of the building. Double glazing on the entire façade reduces glare.

Innovative blinds

High solar reflection, low (4%) transparency factor blinds were selected for the building in all areas exposed to direct sunlight to shade the work area. Blinds are motorised using solar power and close when direct sunlight may cause a problem.

Solar shading

Shading devices were included in the design to limit the amount of direct sunlight into the building. This reduces the heat load and cooling requirement during summer months.

LED lighting

LED lights were used throughout the property, reducing power consumption and environmental impact.

Zoned lighting and cooling

A large portion of the building is open plan. In line with the occupancy of an areas sensors switch lighting on while the ventilation system monitors the temperature and adjusts the cooling according to a constant temperature.

Sub-metering

Energy consumption can best be managed when measured in the various areas. Power meters are installed to measure the power demand continuously for the various circuits and report on exceptions.

Building management system

An intelligent building management system was installed to monitor all motorised systems and control circuits. The system will engage the most efficient mode of operation automatically to achieve the required condition.

Peak energy demand reduction

Power tariffs are generally higher during daytime than at night. A cooling system was included in the design which produces ice during the night and stores it in insulated purpose built containers. During daytime the ice is used to supplement the cooling requirement of the building, reducing the power requirement.

Economy cooling

Being in Stellenbosch with ample fresh air, the economy cooling capability of the cooling solution enables the air-conditioning system to use fresh air from around the building resulting in a better working environment and lower energy requirements. The cooling system uses a refrigerant with zero ozone depletion potential.

Naturally ventilated basement

The entire basement of the main building and parkade was designed with natural ventilation openings to avoid the use of mechanical fans.

Façade optimisation

The white finish for the building envelope is reflective and aids in cooling the building and reducing the energy requirements. The finish also eliminates the need for annual repainting and maintenance which results in a reduction in the overall volatile organic compounds (VOCs).

Water use efficiency

Low flow sanitary fittings

All sanitary fittings are taking advantage of the latest technology to limit the requirement for water.

Storm water and rainfall

2 large tanks retain storm and rain water. The water is used for irrigation and supplementing the grey water system. All run-off from the entire office complex is channelled to the retention tanks to take maximum benefit from rainwater. Landscaping was done using water-wise planting in all cases. The borehole will supplement the rainwater for irrigation during the dry summer months.

Air cooled air-conditioning system

The air-conditioning system uses no water for cooling purposes. The heat is transported away with air through heat exchangers.

Sub-metering

All water consumed on site is measured at various control points to monitor and support improved management practices. This includes water supplied for potable water, grey water, amenities, wash-down, irrigation and supplies from Municipal source, borehole and rainwater tanks. Water sub-metering will also aid in optimising water usage and leak detection.

Use of grey water

The use of grey water, rainwater and borehole water reduces the requirement to use municipal water. The building management system selects the most appropriate source to limit the water demand.

Water for construction

During construction water use on-site was reused where possible. For the entire project, 2 550 kl water was used. Concrete was prepared at the mix plant where borehole water was used for 80% of the requirements.

Indoor quality

Low volatile organic compounds (VOC's)

The architect and interior designer selected products for finishes in the building with a low VOC.

The use of stairwells was promoted in the design to aid air circulation.

Transport

Dedicated facilities are provided under cover for the storage of bicycles. Cyclists can also make use of the shower and cloakroom facilities accessible from the perimeter of the building.

Secure parking on the property will be chargeable and lift clubs will be promoted to improve the occupancy ratio of vehicles.

Material handling

Waste recycling

A dedicated sorting area is provided in the basement where all waster produced in the building will be sorted to take maximum advantage of the local municipal recycling capabilities. Specialist recycling companies are also contracted to remove recycling material. In the office environment, separate bins are also deployed to enable sorting at source.

Reduced paper use

Limited storage capacity is provided on site for traditional paper filing systems and advantage is being taken of technology to store documents digitally. All confidential documents that are no longer required will be shredded on-site and the waste will be made available for recycling.

Waste management plan during construction

A waste management plan was drawn up prior to construction to set guidelines and methodology to be followed for the avoidance, reduction, re-use recycling or disposals of various forms of waste.

Environmental footprint

The contractor selected for the project adheres to the ISO 140001 standards for an effective environmental management system.

Emissions

Lighting pollution

Lighting pollution is limited in all cases. The building will not be lit up at night other than the lighting required for security purposes. Lighting is also designed to be contained on site and not flow across the boundary or skywards. The building lighting will be shut off when there are no occupants.

Governance of our environmental responsibility

Capitec has adopted a board-approved strategy to focus on efficient electricity management, as this is the single largest contributor to our carbon footprint. Thanks to the nature of our products and services, we are a low contributor to overall GHG emissions with an associated limited impact on the environment. This does not reduce our responsibility to do what we can to limit our impact on the environment.

We continuously evaluate how we can evolve our processes to benefit our clients and other stakeholders. The natural outflow from this ongoing improvement cycle is the efficient use of and saving on the use of scarce resources. An example is our service project roll-out that limits paper usage and less travelling because we have centralised certain verification processes.

The social and ethics committee monitors the group's activities with regard to environmental matters.

		2020	2019
Electricity consumed '000	Capitec relies on Eskom for all electricity requirements	**30 411 MWh**	30 193 MWh
Recycled paper	Employees at head and regional offices are required to recycle paper in special paper bins and are encouraged to use the special bins provided for recyclable materials.	**14 991 kg**	13 368 kg
Recycled tins		**2 161 kg**	1 357 kg
Recycled electronic equipment	Disposed of and recycled by accredited third parties.	**5 384 kg**	15 576 kg

Carbon footprint

Carbon footprint (tCO_2e)

GHG protocol scope	2020	2012 baseline
Scope 1: Direct emissions from	**442**	146
Fuel used in directly controlled or owned equipment	**79**	1
Fuel used in directly owned or controlled vehicles	**24**	82
Air-conditioning and refrigeration gas refills	**339**	63
Scope 2: Indirect emissions from purchased electricity	**31 323**	22 971
Purchased electricity – Eskom	**31 323**	22 971
Total scope 1 and 2	**31 765**	23 117
Scope 3: Indirect emissions from:	**4 792**	5 082
Business travel – rental vehicles	**26**	46
Business travel – commercial airlines	**1 353**	1 669
Business travel – employee-owned vehicles	**2 197**	2 021
Product distribution – cash in transit	**466**	944
Paper usage	**1 081**	402
Total scope 1, 2 and 3	**36 887**	28 199

Intensity footprint (tCO_2e)

	2020		2012 baseline	
GHG protocol scope	Per full-time employee	Per m² floor space	Per full-time employee	Per m² floor space
Scope 1 emissions	**0.03**	**0.00**	0.02	0.00
Scope 2 emissions	**2.23**	**0.13**	3.19	0.15
Total	**2.26**	**0.13**	3.21	0.15

Methodology footnote
We use the following:

- *GHG protocol – Corporate Accounting and Reporting Standard (revised edition)*
- *Emission conversion factors as published by the Department for Environment, Food and Rural Affairs (DEFRA)*
- *An operational control approach*
- *The 2012 financial year as base year – the 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2016*

Assumptions footnote

- *The calculation of our carbon footprint is limited to Capitec Bank. All other group entities are considered immaterial*
- *Employee commute is excluded due to insufficient data*
- *Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2019 was based on accurate records. Some instances required the use of averages due to certain electricity usage data not being available. Such instances were, however, limited and had an immaterial impact*

Target footnote

- *To reduce, or at least maintain, the GHG protocol scope 1 and 2 emissions per full-time employee*

The carbon footprint is not subject to independent assurance.

Although there was a 31% increase in the overall footprint between the baseline and the current year emissions, there was a 30% (for scope 1 and 2 emissions) reduction in the footprint measured according to the intensity footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.

Glossary

Acronym	Description
AA	Affirmative action
AC	Authenticated collections
AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
ALSI	JSE All Share Index
ASA	alternative standardised approach
AT 1	Additional tier 1
ATM	Automated Teller Machine
BANKSETA	Banking Sector Education and Training Authority
BASA	Banking Association of South Africa
B-BBEE	Broad-based Black Economic Empowerment
BCBS	Basel Committee on Banking Supervision
BCBS 239	Basel Committee on Banking Supervision Standard number 239
BRC	Broadcast research council of South Africa
C.Connect	Electronic Communications
C.Net	Web-based employee portal
Capitec Bank	Capitec Bank Limited
Capitec	Capitec Bank Holdings Limited
CC	Credit committee
CCF	Credit conversion factors
CCS	Centralised collection services
CET1	Common equity tier 1
CICAAP	Capitec internal capital adequacy assessment process
CIPC	Companies and Intellectual Property Commission
CMT	Continuity management team
COBIT	Control Objectives for Information and Related Technologies
CPA	Credit Providers Association
CPI	Consumer price index
CRM	Credit risk mitigation
CSI	Corporate Social Investment
DEFRA	UK Department for Environment, Food and Rural Affairs
DIS	Deposit insurance scheme
DMTN	Domestic Medium Term Note Programme
DNR	Dual note recycler
DPS	Dividends per share

Acronym	Description
DR	Disaster recovery
D-SIB	Domestically systemically important bank
ECC	Executive credit committee
ECL	Expected credit loss
EDC	External debt collector
EDF	Enterprise development fund
EE	Employment equity
EME	Exempt micro-enterprise
EPS	Earnings per share
EVP	Employee value proposition
EXCO	Executive committee
FICA	Financial Intelligence Centre Act, Act 38 of 2001
FRN	Floating-rate note
FSC	Financial Sector Code
FSCA	Financial Sector Conduct Authority
GDP	Gross domestic product
GHG	Greenhouse gas
GIBS	Gordon institute of Business Science
HEPS	Headline earnings per share
HSM	Hardware security module
IA	Internal Audit
IAR	Integrated annual report
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement
ICT	Information and communications technology
IFRIC	International Financial Reporting Standards Interpretations Committee
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IoDSA	Institute of Directors in South Africa
IRM	Integrated risk management
ISF	Information Security Framework
ISMS	Information security management system
ISO	International Organization for Standardization
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King IV	King IV Report on Corporate Governance™ for South Africa, 2016
KRI	Key risk indicator

Acronym	Description
LCR	Liquidity coverage ratio
LDT	Last day of trade
LRP	Liquidity recovery plan
LTI	Long-term incentive
Moody's	Moody's Investors Services Inc.
MOS	Management operating system
MTSC	Modelling technical subcommittee
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, Act 34 of 2005
NCD	Negotiable Certificate of Deposit
NCR	National Credit Regulator
NED	Non-executive director
NSFR	Net stable funding ratio
PA	Prudential Authority
PASA	Payments Association of South Africa
PD	Probability of default
POCA	Prevention of Organised Crime Act, Act 121 of 1998
Polproc	Policies and procedures department
POS	Point-of-Sale Merchant
Primary banking client	When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries
PwC	PricewaterhouseCoopers Inc.
QSE	Qualifying small enterprise
Quality client	Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3 month period.
RBA	Risk-based assessment
RCDR	Retail call deposit limit ratio
RCMC	Risk and capital management committee
RDARR	Principles for affective risk data aggregation and risk reporting
REMCO	Human resources and remuneration committee
Remote banking	Remote banking refers to both banking app and USSD transactions
RISCO	Risk committee
ROE	Return on equity
S&P	Standard & Poor's
SABRIC	South African Banking Risk Information Centre
SAMOS	South African Multiple Options Settlement
SAR	Share appreciation rights
SARA	South African Reward Association
SARB	South African Reserve Bank
SARs	Share Appreciation Rights
SARS	South African Revenue Service
SDG	Sustainable development goals as set out by the UN
SIFI	Systematically important financial institution
SST	Self-service terminals
Stats SA	Statistics South Africa
STI	Short-term incentive
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T2	Tier 2
TGP	Total guaranteed pay
The group	Capitec Bank Holdings Limited and subsidiaries
TR	Total remuneration
UN	United Nations
USSD	Unstructured Supplementary Service Data
VAT	Value added tax
VWAP	Volume weighted average price
WACC	Weighted average cost of capital

Capitec Bank Limited consolidated and separate financial statements

Contents

The preparation of the Capitec Bank Limited consolidated and separate 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 and its subsidiary (the group)

The directors are responsible for the preparation, integrity and fair presentation of the consolidated financial statements of Capitec Bank Limited. The annual financial statements, comprising the statements of financial position at 29 February 2020, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, Act 71 of 2008, as amended (Companies Act), and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors' report.

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group at year-end. The directors also prepared the directors' report and the other information included in the Capitec Bank Limited annual report and are responsible for both its accuracy and consistency with the financial statements.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the group and 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 financial statements were prepared on a going concern basis. Based on their assessment the directors have no reason to believe that the group or any company in the group will not continue as a going concern in the foreseeable future. The viability of the group is supported by the financial statements.

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

The group's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements and their report is presented on pages 142 to 149.

The financial statements set out on pages 150 to 267 were approved by the board of directors and signed on its behalf on 14 April 2020 by:

Santie Botha
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 29 February 2020, the company has filed all required returns and notices in terms of the Companies Act, and that all such returns and notices are to the best of my knowledge and belief true, correct and up-to-date.

Yolande Mouton
Stellenbosch
14 April 2020

Audit committee's report

Capitec Bank Limited and its subsidiary (the group)

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 (Banks Act), and section 94 of the Companies Act to the extent applicable.

The audit committee is comprised of 3 independent non-executive directors. The committee met 3 times during the year with 100% attendance by members at the meetings.

The Mercantile Bank Limited group audit committee functions independently. As at 29 February 2020 the committee is composed of 3 independent non-executive directors.

The committee's responsibilities include statutory duties in terms of the Companies Act, as well as responsibilities assigned to it by the group's board of directors. The committee's terms of reference are set out in a board-approved charter and are detailed in the corporate governance review.

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 29 February 2020.

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 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 2020 financial year;
- Approved the nature and extent of non-audit services that the external auditor may provide;
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm;
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements;
- Reviewed the accounting policies and the group financial statements for the year ended 29 February 2020 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Companies Act, Code and IFRS; and
- Undertook the prescribed functions (in terms of section 94(7) of the Companies Act) on behalf of the subsidiary companies of the group.

The committee performed the following duties assigned by the board during the period under review:

- Considered the sustainability of information as disclosed in 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 8 April 2020, recommended the integrated annual report for approval by the board of directors;
- Ensured that the group'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;
- Ensured that appropriate financial reporting procedures exist and are working, which includes consideration of all the entities in the consolidated group financial statements.
- The committee met with the external auditors and with the head of the internal audit function without management being present; and
- The committee satisfied itself in terms of the JSE Listings Requirements 3.84(g)(i) that the group financial director has appropriate expertise and experience.

Jean Pierre Verster
Chairman (Capitec Bank Limited and Mercantile audit committee)
14 April 2020

Directors' report

Year ended 29 February 2020

The directors present their annual report to shareholders for the year ended 29 February 2020.

Nature of the business

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

On 7 November 2019, the group obtained control over Mercantile Bank Holdings Limited by acquiring 100% of the shares and voting interest in Mercantile Bank Holdings Limited. 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.

Review of operations

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

Share capital

No ordinary shares were issued during the year ended 29 February 2020. The number of shares in issue amounted to 1 300 000 (February 2019: 1 300 000).

No ordinary shares were repurchased during the year and 94 228 (February 2019: 345 658) preference shares were repurchased.

Dividends to shareholders

The company declared the following dividends for the year under review and the previous year:

	2020	2019
Ordinary dividend (R'000)		
Interim	872 984	728 450
Final	–	1 295 022
Preference dividend (cents per share)		
Interim	3 527	4 998
Final	3 345	3 786

Based on the guidance note issued by the Prudential Authority (PA) on 6 April 2020 the board decided not to declare a final dividend for the 2020 financial year. According to the notice the PA expects there to be no distribution of dividends on ordinary shares by any bank during 2020.

Subsidiaries

Information relating to the company's financial interest in its subsidiaries is presented in the notes to the annual financial statements.

Joint venture

Information relating to the company's financial interest in its joint venture is presented in the notes to the annual financial statements.

Directors and company secretary

Information relating to the directors and company secretary is included from page 65 to page 67 of the annual report. SL Botha was appointed as chairman of the board on 1 June 2019.

The directors' remuneration is disclosed in the notes to the financial statements.

NS Mjoli-Ncube retired from the board on 31 May 2019.
R Stassen retired from the board on 31 May 2019.
LA Dlamini resigned from the board on 30 June 2019.
TE Mashilwane was appointed to the board on 6 March 2020.

Independent auditor's report

To the Shareholders of Capitec Bank Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Limited (the Company) and its subsidiaries (together the Group) as at 29 February 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Limited's consolidated and separate financial statements set out on pages 150 to 267 comprise:

- the consolidated and separate statements of financial position as at 29 February 2020;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "Integrated Annual Report 2020 Capitec Bank Limited", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively.

Our audit approach

Overview

Overall group materiality

- Overall group materiality: R400.8 million, which represents 5% of consolidated profit before tax.

Group audit scope

- The group audit scope included the audit of Capitec Bank Limited and its consolidated entities, the only significant components being Capitec Bank Limited and its wholly owned subsidiary Mercantile Bank Limited – consolidated ("Mercantile").

Key audit matters

Key audit matters that relate to the audit of the consolidated and separate financial statements:

- Retail banking segment – Expected credit losses (ECL) on loans and advances.

Key audit matters that relate to the audit of the consolidated financial statements:

- Accounting for the acquisition of Mercantile.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality R400.8 million.
How we determined it 5% of consolidated profit before tax.
Rationale for the materiality benchmark applied We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Capitec Bank Limited and its wholly owned subsidiary, Mercantile, are the only components scoped in for group reporting due to their financially significant contribution to consolidated profit before tax and consolidated total assets of the Group. Both Capitec Bank Limited and Mercantile operate in South Africa. Capitec Bank Limited's separate financial statements comprise the retail banking segment of the Group, while its consolidated financial statements also include the business banking segment of the Group, housed within Mercantile, acquired during the 2020 financial year through the acquisition of Mercantile. The investment in Imvelo Ventures, a company registered in South Africa, is excluded from our audit scope as it is considered financially insignificant to the Group. We performed analytical review procedures over this insignificant entity at a group level.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and other firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained in order to issue our audit opinion on the consolidated financial statements of the Group.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Retail banking segment – Expected credit losses (ECL) on loans and advances *Refer to note 3 (Critical accounting estimates and judgements in applying accounting policies – expected credit loss on loans and advances), note 9 (Net loans and advances), note 2.5.1.2 (Accounting policies – Impairment – Retail), note 34.1 (Credit risk – Retail) for the related disclosures.* For the retail banking segment, at 29 February 2020, gross unsecured loans and advances amounted to R65 billion, against which an ECL of R13 billion was raised. In calculating the ECL, which is calculated in terms of International Financial Reporting Standards (IFRS) 9 – *Financial Instruments* (IFRS 9), the key areas of significant management judgement and estimation included: • Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in calculated behavioural and granting scores, beyond determined thresholds. • Determination of the write-off point. The Group considers the point at which there is no reasonable expectation of further recovery to be made, when the expected present value of projected future recoveries is less than 5% of the gross balance before write-off. This point is estimated based on account status, behavioural score and consecutive missed payments.	Making use of our actuarial expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows: *Evaluation of SICR* • We recalculated the impact of SICR, applying the assumptions and data included in management's model, including the performance of rehabilitated accounts. • We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 based on history. • We performed a sensitivity analysis of SICR to determine the impact of change in SICR thresholds on the ECL recognised. • We evaluated management's underlying documentation for the performance of behavioural scores, granting scores and the correlation of these to default rates. • We obtained an understanding of management's process for identifying employer groups under stress and found these employer groups to have been considered in management's calculation of the granting scores. *Determination of write-off point* • For the term lending portfolio, we considered historical post write-off recoveries to evaluate management's assessment that the current write-off point is still the point at which there was no reasonable expectation of further recovery. • Through recalculation, we tested the application of the IFRS 9 write-off policy. We excluded post write-off recoveries from the Loss Given Default (LGD) in our recalculation.

Key audit matter

- Determining and weighting of assumptions used in the forward looking economic model. Three forward looking scenarios are probability weighted by management to determine the ECL (positive, negative and a baseline scenario). The Group utilises at least a 3 year macro-economic outlook of the Bureau of Economic Research to project future changes in the Consumer Price Index, the petrol price, the unemployment rate, the real wage rate and the real credit extension to households. These scenarios are then linked to Probability of Defaults (PDs) to derive a forward looking ECL.
- Assessing the impact of COVID-19 on the forward looking economic model as a non-adjusting post balance sheet event with it only becoming a pandemic post balance sheet date. As such, only information available up to 29 February 2020 was included in the forward looking economic model. The impact of expected lower disposable income and retrenchments was included by stressing 3 macro-economic variables input in the forward looking economic model, being the unemployment rate, real wage rate and real credit extension.
- Determining event driven management ECL overlays. Management increases the results produced by the modelled output for events that influence the modelled output, which are not yet captured by the model.
- Calibrating of the ECL statistical model components (Probability of Default "PD", Exposure at Default "EAD", Loss Given default "LGD") used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Group stratifies aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status and the behaviour score of the client. Management judgement is required to consider how historical data is used to project ECL.

We determined the ECL assessment for the retail banking segment loans and advances to be a matter of most significance to the current year audit due to:

- the degree of subjective judgement and estimation applied by management in determining the ECL; and
- the magnitude of the ECL.

How our audit addressed the key audit matter

Inclusion of forward looking information and macro-economic variables in the ECL

- We considered management's assessment of COVID-19 being a non-adjusting post balance sheet event by considering the timing of when sentiment changed to viewing it as a pandemic, taking into account the number of identified COVID-19 cases in South Africa, local stock market changes and public announcements.
- We considered the assumptions used in the forward looking economic model, specifically around the forward looking scenarios used, the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data.
- We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.
- We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 on forward looking information by considering historic market information available at the reporting date. We recalculated the impact of these.

Event driven management overlays in the ECL

- We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. Based on our reperformance of the ECL model, we considered effects already taken into account by the ECL model to determine whether the impact of the overlay was not double counted.
- We evaluated whether these overlays were subject to an appropriate governance process.

Calibrating of ECL statistical model components (PD, EAD, LGD)

- We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows.
- In gaining this understanding, we re-performed the ECL model.

Key audit matter	How our audit addressed the key audit matter
Accounting for the acquisition of Mercantile *Refer to note 3.1.3 (Critical accounting estimates and judgements – Acquisition of Mercantile), note 4 (Business combinations), note 17 (Intangible assets), for the related disclosures.* Capitec Bank Limited acquired Mercantile on 7 November 2019 for R3.56 billion in cash, determined the identified fair value of the acquired business as R2.76 billion and recognised goodwill of R795 million. A purchase price allocation (PPA) was performed in accordance with IFRS 3 *Business Combinations* (IFRS 3) by management with the assistance of a valuation expert appointed by them. The key areas of significant management judgement and estimation included: • Identification of intangible assets acquired such as core deposit intangible and client relationships intangible. • Determination of the fair value of intangible assets and other assets and liabilities acquired. For loans and advances and deposits, this includes consideration of the expected maturity profile and variability of pricing.	Making use of our valuation expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the accounting for the acquisition of Mercantile as follows: • We assessed the competence, capabilities and objectivity of management's external valuation expert by considering their qualifications and past experience. • We obtained the PPA report prepared by management's external valuation expert as well as the relevant underlying information and assessed it as set out below: *Intangible assets, other than goodwill* • We held discussions with management and their external valuation expert and inspected the purchase agreements. Taking into account our knowledge of the business and the industry, we evaluated the method applied to identify the intangible assets acquired and their related fair values. • We tested the underlying assumptions, including the discount rate, cost of funding and attrition rates used in management's expert's models for reasonableness by benchmarking these assumptions to industry rates. • We assessed the valuation methodology applied by management's expert by comparing it to accepted industry valuation techniques. • We tested the mathematical accuracy of the valuation models through reperformance or reasonability tests. *Other assets and liabilities* • We assessed the results of an independent assurance engagement performed on the carrying values of other assets and liabilities at acquisition date. We also assessed the fair values of these other assets and liabilities by performing sensitivity and reasonability tests. In doing so, we considered the expected maturity profile, the variability of pricing, the nature of the items, our industry experience and where applicable, industry benchmarks.

Key audit matter	How our audit addressed the key audit matter
• For goodwill, the inherent judgement involved in the valuation of the identifiable assets and liabilities directly impacts the amount of goodwill recognised as the excess of the purchase price over the fair value of the acquired business. In assessing goodwill for impairment, judgement was applied in determining revenue growth rates, the terminal growth rate, dividend pay-out rate and expected rate of return. • Determination of the impact of COVID-19 as a non-adjusting post balance sheet event, for reasons noted above, and determining the impact of this on forward looking growth rates applied in estimating future cash flows in assessing goodwill for impairment, based on information available at 29 February 2020. We determined the accounting for the acquisition of Mercantile to be a matter of most significance to the current year audit due to: • the degree of subjective judgement and estimation applied by management in determining the valuation of the identifiable assets and liabilities and goodwill as part of the purchase price allocation in accordance with IFRS 3; and • the magnitude of the identifiable assets, liabilities and goodwill and extent of related disclosures.	*Goodwill* • We recalculated the resultant goodwill at acquisition. No material differences were noted. • We considered whether goodwill was impaired by assessing the mathematical accuracy of management's goodwill impairment calculation, considering the reasonability of inputs and assumptions disclosed and applied in the calculation with reference to historic revenue growth and management's forecast of new client revenues from leveraging the Capitec Bank brand. We compared the terminal growth rate to the long run average CPI obtained from independent sources, compared the dividend pay-out rate to current dividend pay-out rates adjusted for expected revenue growth, and compared the expected rate of return to industry average rates. We agreed management's cash flow forecast to budgets and where applicable to actual past performance. • We considered management's assessment of COVID-19 being a non-adjusting post balance sheet event by considering the timing of when sentiment changed to viewing this as a pandemic, taking into account the number of identified COVID-19 cases in South Africa, local stock market changes and public announcements. In assessing goodwill for impairment, we assessed the reasonableness of adjustments made by management to revenue growth in estimating future cash flows, based on information available as at 29 February 2020.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled “Integrated Annual Report 2020 Capitec Bank Limited”, which includes the Audit committee’s report, Directors’ report and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s and the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Capitec Bank Limited for 19 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

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

Statements of financial position

As at 29 February 2020

		GROUP		COMPANY	
R'000	**Notes**	**2020**	**2019**	**2020**	**2019**
Assets					
Cash, cash equivalents and money market funds	5	**42 217 371**	29 130 717	**40 147 320**	29 130 717
Financial assets at fair value through profit and loss	7	**1 504 262**	–	**1 504 262**	–
Financial investments	6	**17 207 094**	10 732 394	**16 329 710**	10 732 394
Term deposit investments	8	**–**	9 331 297	**–**	9 331 297
Net loans and advances	9	**62 041 559**	44 509 305	**52 011 683**	44 509 305
Other receivables	10	**2 046 585**	1 639 428	**1 600 001**	1 639 428
Net insurance receivable	11	**217 423**	236 391	**217 423**	236 391
Derivative assets	45	**37 440**	479	**5 713**	479
Financial assets – equity instruments at FVOCI	12	**101 139**	100 000	**100 000**	100 000
Current income tax asset		**4 554**	286 046	**–**	286 046
Group loans receivable	13	**15 257**	331 465	**215 257**	331 465
Interest in subsidiaries	14	**–**	–	**3 555 772**	–
Interest in joint ventures	14	**108 540**	–	**107 202**	–
Property and equipment	16	**2 960 163**	1 863 897	**2 728 952**	1 863 897
Right-of-use asset	15	**2 460 025**	–	**2 447 932**	–
Intangible assets	17	**1 373 801**	316 283	**401 974**	316 283
Deferred income tax asset	18	**1 853 533**	1 583 582	**1 829 088**	1 583 582
Total assets		**134 148 746**	100 061 284	**123 202 289**	100 061 284
Liabilities					
Derivative liabilities	45	**61 034**	14 704	**31 029**	14 704
Current income tax liability		**14 345**	–	**14 345**	–
Deposits	19	**99 649 107**	71 365 285	**87 496 930**	71 365 285
Wholesale funding	19	**3 693 669**	5 078 328	**3 336 286**	5 078 328
Other liabilities	20	**2 632 118**	2 543 228	**2 256 410**	2 543 228
Group loans payable	24	**70 251**	–	**2 182 864**	–
Lease liability	21	**2 794 847**	–	**2 781 889**	–
Provisions	23	**171 210**	91 005	**109 801**	91 005
Deferred income tax liability	18	**72 986**	–	**–**	–
Total liabilities		**109 159 567**	79 092 550	**98 209 554**	79 092 550
Equity					
Capital and reserves					
Ordinary share capital and premium	25	**6 105 981**	6 105 981	**6 105 981**	6 105 981
Cash flow hedge reserve	26	**(21 345)**	(9 588)	**(21 345)**	(9 588)
Other reserves	26	**(4 962)**	–	**–**	–
Retained earnings		**18 836 407**	14 790 738	**18 835 001**	14 790 738
Share capital and reserves attributable to ordinary shareholders		**24 916 081**	20 887 131	**24 919 637**	20 887 131
Non-redeemable, non-cumulative, non-participating preference share capital and premium	25	**73 098**	81 603	**73 098**	81 603
Total equity		**24 989 179**	20 968 734	**24 992 735**	20 968 734
Total equity and liabilities		**134 148 746**	100 061 284	**123 202 289**	100 061 284

Income statements

Year ended 29 February 2020

R'000	Notes	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Lending, insurance and investment income	27	19 000 280	17 226 111	18 536 164	17 226 111
Interest income	27	17 039 818	15 499 664	16 579 870	15 499 664
Loan fee income	27	979 624	931 470	975 456	931 470
Net insurance income	11	980 838	794 977	980 838	794 977
Lending and investment expenses		(5 770 034)	(4 729 317)	(5 534 620)	(4 729 317)
Interest expense	27	(5 679 848)	(4 509 549)	(5 444 434)	(4 509 549)
Loan fee expense	27	(90 186)	(219 768)	(90 186)	(219 768)
Net lending, insurance and investment income		13 230 246	12 496 794	13 001 544	12 496 794
Transaction fee income	27	10 262 549	8 473 959	10 094 767	8 473 959
Transaction fee expense		(2 846 923)	(2 009 669)	(2 735 988)	(2 009 669)
Net transaction income		7 415 626	6 464 290	7 358 779	6 464 290
Dividend income	28	–	287	–	287
Credit impairments	29	(4 473 670)	(4 450 245)	(4 360 286)	(4 450 245)
Foreign currency income		38 691	–	–	–
Funeral income		413 133	53 456	413 133	53 456
Other income		31 505	133	18 800	133
Net income		16 655 531	14 564 715	16 431 970	14 564 715
Operating expenses	30	(8 641 638)	(7 713 887)	(8 421 278)	(7 713 887)
Share of net profit of joint ventures	14	1 338	–	–	–
Operating profit before tax		8 015 231	6 850 828	8 010 692	6 850 828
Income tax expense	31	(1 794 643)	(1 718 767)	(1 791 510)	(1 718 767)
Profit for the year		6 220 588	5 132 061	6 219 182	5 132 061

Statements of other comprehensive income

Year ended 29 February 2020

		GROUP		COMPANY	
R'000	**Notes**	**2020**	**2019**	**2020**	**2019**
Profit for the year		**6 220 588**	5 132 061	**6 219 182**	5 132 061
Other comprehensive income that may subsequently be reclassified to profit or loss		**(11 757)**	17 149	**(11 757)**	17 149
Cash flow hedge recognised during the year	26	**(31 706)**	5 009	**(31 706)**	5 009
Cash flow hedge reclassified to profit and loss for the year	26	**15 377**	18 809	**15 377**	18 809
Income tax relating to cash flow hedge	26	**4 572**	(6 669)	**4 572**	(6 669)
Other comprehensive income that will not subsequently be reclassified to profit or loss		**(4 962)**	–	**–**	–
Remeasurement of defined benefit obligation	26	**567**	–	**–**	–
Loss on remeasurement to fair value of financial assets	26	**(6 911)**	–	**–**	–
Income tax thereon	26	**1 382**	–	**–**	–
Total comprehensive income for the year		**6 203 869**	5 149 210	**6 207 425**	5 149 210

Statements of changes in equity

Year ended 29 February 2020

R'000	Notes	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Other reserves	Retained earnings	Total
GROUP							
Balance at 28 February 2018		6 105 981	112 803	(26 737)	–	12 331 052	18 523 099
Changes on initial application of IFRS 9		–	–	–	–	(648 039)	(648 039)
Restated balance at 1 March 2018		6 105 981	112 803	(26 737)	–	11 683 013	17 875 060
Total comprehensive income for the year		–	–	17 149	–	5 132 061	5 149 210
Transactions with shareholders and directly recorded in equity		–	(31 200)	–	–	(2 024 336)	(2 055 536)
Ordinary dividend	39	–	–	–	–	(2 015 551)	(2 015 551)
Preference dividend	39	–	–	–	–	(8 785)	(8 785)
Preference shares repurchased		–	(31 200)	–	–	–	(31 200)
Balance at 28 February 2019		6 105 981	81 603	(9 588)	–	14 790 738	20 968 734
Total comprehensive income for the year		**–**	**–**	**(11 757)**	**(4 962)**	**6 220 588**	**6 203 869**
Transactions with shareholders and directly recorded in equity		**–**	**(8 505)**	**–**	**–**	**(2 174 919)**	**(2 183 424)**
Ordinary dividend	39	**–**	**–**	**–**	**–**	**(2 168 006)**	**(2 168 006)**
Preference dividend	39	**–**	**–**	**–**	**–**	**(6 913)**	**(6 913)**
Preference shares repurchased		**–**	**(8 505)**	**–**	**–**	**–**	**(8 505)**
Balance at 29 February 2020		**6 105 981**	**73 098**	**(21 345)**	**(4 962)**	**18 836 407**	**24 989 179**
Notes		25	25	26			

Statements of changes in equity (continued)

Year ended 29 February 2020

R'000	Notes	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Other reserves	Retained earnings	Total
COMPANY							
Balance at 28 February 2018		6 105 981	112 803	(26 737)	–	12 331 052	18 523 099
Changes on initial application of IFRS 9		–	–	–	–	(648 039)	(648 039)
Restated balance at 1 March 2018		6 105 981	112 803	(26 737)	–	11 683 013	17 875 060
Total comprehensive income for the year		–	–	17 149	–	5 132 061	5 149 210
Transactions with shareholders and directly recorded in equity		–	(31 200)	–	–	(2 024 336)	(2 055 536)
Ordinary dividend	39	–	–	–	–	(2 015 551)	(2 015 551)
Preference dividend	39	–	–	–	–	(8 785)	(8 785)
Preference shares repurchased		–	(31 200)	–	–	–	(31 200)
Balance at 28 February 2019		6 105 981	81 603	(9 588)	–	14 790 738	20 968 734
Total comprehensive income for the year		–	–	(11 757)	–	6 219 182	6 207 425
Transactions with shareholders and directly recorded in equity		–	(8 505)	–	–	(2 174 919)	(2 183 424)
Ordinary dividend	39	–	–	–	–	(2 168 006)	(2 168 006)
Preference dividend	39	–	–	–	–	(6 913)	(6 913)
Preference shares repurchased		–	(8 505)	–	–	–	(8 505)
Balance at 29 February 2020		6 105 981	73 098	(21 345)	–	18 835 001	24 992 735
Notes		25	25	26			

Statements of cash flows

Year ended 29 February 2020

R'000	Notes	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Cash flow from operating activities					
Cash flow from operations	37.1	17 871 898	16 195 587	17 540 851	16 195 587
Income taxes paid	38	(1 781 219)	(2 818 959)	(1 732 053)	(2 818 959)
		16 090 679	13 376 628	15 808 798	13 376 628
Cash flow from investing activities					
Acquisition of property and equipment	16	(1 135 405)	(710 111)	(1 134 494)	(710 111)
Disposal of property and equipment	16	13 700	9 151	13 700	9 151
Disposal of intangible assets	17	–	–	–	–
Acquisition of intangible assets	17	(263 259)	(230 127)	(257 435)	(230 127)
Loans to group companies – loans repaid		107 355	–	107 355	–
Loans to group companies – loans granted		(13 904)	(149 055)	(213 904)	(149 055)
Investment in term deposit investments	8	–	(10 557 000)	–	(10 557 000)
Redemption of term deposit investments	8	9 056 000	3 947 000	9 056 000	3 947 000
Acquisition of financial investments	6	(16 494 410)	(12 611 392)	(16 494 410)	(12 611 392)
Redemption of financial investments	6	11 172 903	13 655 132	11 172 903	13 655 132
Acquisition of financial assets at fair value through profit and loss	7	(1 500 000)	–	(1 500 000)	–
Redemption of financial assets at fair value through profit and loss	7	4 862	–	4 862	–
Decrease/(increase) in short-term money market investments		10 122	(14 745)	10 122	(14 745)
Investment in subsidiary net of cash acquired	4	1 037 450	–	(3 555 772)	–
Interest acquired in joint venture	14	(107 202)	–	(107 202)	–
		1 888 212	(6 661 147)	(2 898 275)	(6 661 147)
Cash flow from financing activities					
Loans from group companies – loans obtained		–	–	2 112 613	–
Preference shares repurchased	25	(8 505)	(31 200)	(8 505)	(31 200)
Issue of institutional bonds and other funding	19	500 000	500 000	500 000	500 000
Redemption of institutional bond and other funding	19	(2 962 158)	(1 119 000)	(2 072 000)	(1 119 000)
Payment of lease liabilities	37.2	(245 903)	–	(243 032)	–
Dividends paid	39	(2 175 319)	(2 025 843)	(2 175 319)	(2 025 843)
		(4 891 885)	(2 676 043)	(1 886 243)	(2 676 043)
Effect of exchange rate change on cash and cash equivalents		7 486	–	–	–
Net increase in cash and cash equivalents		13 094 492	4 039 438	11 024 280	4 039 438
Cash and cash equivalents at the beginning of the year		29 099 536	25 060 098	29 099 536	25 060 098
Cash and cash equivalents at the end of the year	5	42 194 028	29 099 536	40 123 816	29 099 536

Notes to the financial statements

Year ended 29 February 2020

1. General information

1.1 Nature of business

The company's main business is retail banking and through its subsidiary business banking.

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 business banking. The acquisition is expected to provide the group with a market share in business banking.

1.2 Review of operations

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

The group's earnings attributable to ordinary and preference shareholders amounted to R6 220.6 million (2019: R5 132.1 million).

1.3 Directors and secretary

Information relating to the directors and secretary of the company is presented in the Directors' report and Statutory information.

1.4 Group details

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

Registered office: 5 Neutron Road, 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 group's consolidated and company's separate annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), and the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the South African Companies Act.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at fair value through profit or loss as well as instruments carried at fair value through other comprehensive income.

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 group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The accounting policies applied are consistent with the previous financial statements, with the exception of IFRS 16 *Leases*.

IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by IAS 17, and introduces a single lessee accounting model, where a right-of-use asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Capitec elected, as permitted by IFRS 16, not to restate comparative financial statements and to use the modified retrospective approach. Under 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.

The impact of IAS 28 *Investments in associates and joint ventures* in respect of long-term interests in associates was assessed and there is no impact due to there not being loans granted to the associates. The impact of IFRIC 23 *Uncertainty over income tax treatments* was considered and there is no impact.

In the notes to the financial statements, amounts denoted as current are expected to be recovered/settled no more than 12 months after the reporting period. Amounts denoted as non-current are expected to be recovered more than 12 months after the reporting period.

2.2 Basis of consolidation

The consolidated financial statements include those of the company, all its subsidiaries and joint ventures.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Currently the group does not have non-controlling interests as all subsidiaries are wholly owned.

A joint arrangement is an arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

Investments in joint ventures are initially recognised at cost and at group level are accounted for according to the equity method. Under the equity method, on initial recognition the investment in joint ventures are recognised at cost, and the carrying amount is increased or decreased to recognise the group's share of the post-acquisition profits or losses in profit or loss, and the group's share of movements in other comprehensive income. Distributions received from the joint ventures will reduce the carrying amount of the investment.

In the event that the group's share of losses in an investment in joint venture equals or exceeds its interest in the joint venture, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the respective joint venture.

Unrealised gains on transactions between the group and its joint venture are eliminated that the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

The group determines at each reporting date whether there is objective evidence that any investment in the respective joint venture is impaired. If this is the case, the difference between the recoverable amount of the said joint venture and its carrying value is recognised in the income statement.

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in an acquisition of a business (acquiree) comprises the fair values of the assets transferred, the liabilities assumed, the equity interests issued by the group and the fair value of any contingent consideration arrangements. If the contingent consideration is classified as equity, it is not subsequently remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

2. Accounting policies (continued)

2.3 Business combinations (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business combinations* are recognised at their fair value at the date of acquisition, except for:

- deferred taxation assets or liabilities, which are recognised and measured in accordance with IAS 12 *Income taxes*; liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 *Employee benefits*;
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2 *Share-based payments*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*, which are measured in accordance with that standard.

2.3.1 Goodwill

Goodwill in a business combination is recognised at the acquisition date when the consideration transferred and the recognised amount of non-controlling interests exceed the fair value of the net identifiable assets of the entity acquired. If the consideration transferred is lower than the fair value of the identifiable net assets of the acquiree (a bargain purchase), the difference is recognised in the income statement. The gain or loss arising on the disposal of an entity is calculated after consideration of attributable goodwill.

2.4 Cash, cash equivalents and money market funds

Cash, cash equivalents and money market funds are disclosed in one line on the statement of financial position.

Cash, cash equivalents and money market funds comprise balances with less than 3 months' maturity from the date of acquisition, including: cash, balances with central banks, resale agreements, treasury bills and other eligible bills, amounts due from banks, foreign banks, non-bank money market investments, fixed and notice deposits with original maturities less than 3 months and short-term government securities that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. 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, including government bonds, are included under cash and cash equivalents. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

Mandatory reserve deposits with the South African Reserve Bank (SARB) must be maintained at the average required by the SARB over a 1 month period and are non-interest bearing. These deposits may be used to manage significant intraday and interday cash outflows but are not considered as available for normal cash planning purposes. A total of 70% of the balance is available without requiring prior regulatory approval.

2.5 Financial instruments

2.5.1 Financial assets

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

At initial recognition, the group measures a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs on financial assets carried at FVTPL are expensed in the income statement.

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

The group classifies its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The group classifies its financial assets into the following categories:

- Measured at amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL).

The group assesses its business model by portfolio of financial assets that are managed together and evaluates the following factors:

- How the performance of the portfolio is evaluated and reported to group management;
- How the portfolio managers (if applicable) are compensated, including whether management is compensated based on the fair value of the assets or the contractual cash flow collected;
- The risks that affect the performance of the business model and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectation of future sale activities.

The contractual cash flow characteristics are evaluated based on whether the contractual cash flows consist solely of payments of principal and interest (SPPI). This assessment includes assessing whether the financial asset has a contractual term that would change the timing or amount of contractual cash flows. The group considers whether the contractual cash flows are subject to any contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and features that would modify the consideration of the time value of money.

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

2.5.1.1 Nature and subsequent measurement

Amortised cost

The following items are the significant debt instruments held by the group:

(i) Loans and advances to clients that are recognised when funds are advanced to the borrowers.

Loan consolidations are treated as a derecognition of the loans as the contractual cash flows from the financial asset expire.

In instances where the group reschedules a credit agreement, the cash flows are renegotiated with the client, but the internal rate of return remains the same and there are therefore no gains or losses.

When a client goes into debt review, cash flows are renegotiated and in some instances the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 9.

(ii) Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than 3 months, deposit investments with the contractual option to call the funds after a period longer than 3 months and deposits that have effective contractual notice periods greater than 3 months.

(iii) Financial investments consist of government stock, treasury bills and negotiable certificates of deposits. These investments are measured at amortised cost subject to impairment.

For cash flow purposes, treasury bills for retail banking are classified in investing activities and for business banking purposes in operating activities. Both the retail and business banking divisions hold treasury bills to maturity. The business banking division utilises treasury bills to meet their liquid asset requirement (LAR). This is considered to be an operating activity.

2. Accounting policies (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets (continued)

2.5.1.1 Nature and subsequent measurement (continued)

(iv) Other receivables comprise settlement balances with the regulator, funeral income receivable, prepayments, deposits that meet the definition of financial assets and other receivables.

These classes of debt instruments are held for the collection of their contractual cash flow and their cash flows represent SPPI and therefore are measured at amortised cost. Interest income from these financial assets is included in interest income on the group's income statement using the effective interest rate method. Impairment losses are presented as part of credit impairment charge on the group's income statement.

Fair value through other comprehensive income (FVOCI)
The following item is the only significant equity instrument of the group:

(i) Equity investment in African Bank Holdings Limited
The group elected to irrevocably designate its equity investment at FVOCI. This election results in fair value gains and losses being recognised in other comprehensive income and not subsequently being reclassified to profit or loss, including on disposal. Credit impairment (and reversal of credit impairment) is not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the income statement when the group's right to receive such payments is established. Refer to note 12.

Fair value through profit or loss (FVTPL)
The following items are the only significant financial instruments held at fair value through profit or loss:

(i) Derivative assets and derivative liabilities

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

Derivatives are classified as held for trading and measured at FVTPL unless they are designated as part of a qualifying hedge. 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.

All derivative 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 use of derivatives is restricted to the hedging of forecast cash flows for specific transactions.

Currently derivatives are limited to interest rate swaps, forward exchange contracts and foreign currency swaps.

Fair values are obtained from quoted market prices, where available, alternatively using valuation techniques 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.

(ii) Financial assets – Income funds

Income funds are classified and measured at FVTPL. Income funds are initially recognised at fair value excluding transaction costs that are directly attributable to the acquisition of the financial asset and are subsequently remeasured at fair value. The fair value adjustments are recorded in other income in the statement of profit or loss.

2.5.1.2 Impairment

The group applied the expected credit loss (ECL) model on all financial debt instruments that are classified at amortised cost as well as undrawn commitments.

2.5.1.2.1 Recognition

Stage 1

An ECL is recognised at the time of initial recognition of the financial debt instruments and represents the lifetime cash shortfall arising from possible default events up to 12 months into the future from the reporting date.

An ECL continues to be determined on this basis until there is a significant increase in credit risk (SICR) event or the financial debt instrument becomes credit impaired.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the loan and the cash flows that the group expects to receive over the contractual life of the loan.

(i) Retail

These are loans and advances which are up-to-date with no indication of SICR as well as loans that have been rescheduled form up-to-date or arrears and have been rehabilitated. Clients that applied for debt review more than 12 months ago and remained up-to-date are classified as stage 1 subject to the SICR assessment.

(ii) Business

These are loans and advances which are up-to-date or up to 1 month in arrears with no indication of SICR. This will also include distressed arrears restructured loans that have cured.

Stage 2

The group monitors financial debt instruments subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument. The 12 month ECL is extended to a lifetime ECL for these clients.

(i) Retail

The following loans and advances are included in stage 2:

- Up-to-date loans with SICR;
- Loans up to 1 month in arrears; and
- Loans that applied for debt review between 6 and 12 months ago which are currently performing.

The group identifies SICR for clients that are up-to-date on their loans, but who have reached certain behaviour risk thresholds or specific events have occurred that raise a SICR flag in the model.

The retail banking segment considers the following to be SICR for all loans and advances extended to the client:

- A client who has been reported as being unemployed;
- A client with a term loan that is up-to-date, but has a credit card which is in arrears. The term loan is identified as SICR;
- A client with a behaviour score that has decreased below the internal SICR threshold set by the bank; and
- A client with updated granting score below the internal SICR threshold set by the bank.

(ii) Business

Includes the following financial assets:

- Loans that have experienced a SICR since initial recognition;
- Loans that are between 2 and 3 months in arrears;
- Up-to-date loans that restructured from up-to-date (not yet rehabilitated); or
- Up-to-date loans that restructured from arrears (not yet rehabilitated).

2. Accounting policies (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets (continued)

2.5.1.2 Impairment (continued)

2.5.1.2.1 Recognition (continued)

(ii) Business (continued)

The business banking segment considers a loan to have experienced a SICR if the borrower is on the watch list and/or meets 1 or more of the following criteria:

- Significant adverse changes in the business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value which is expected to increase the risk of default; or
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.

A backstop is applied and the loan is considered to have experienced SICR if the borrower is more than 1 month past due on their contractual payments.

Stage 3 (credit impaired assets)

The group defines loans and advances as being "credit impaired" when 1 or more events that have a detrimental impact on the estimated future cash flows of the financial asset has occurred.

Interest on loans and advances categorised as stage 3 is recognised in the income statement net of ECL impairments. Loans that are seen as stage 3, being credit impaired, have a lifetime ECL applied.

(i) Retail

Loans and advances are considered to be credit impaired upon the occurrence of any of the following events:

- Client is placed under debt review;
- Client is handed over for collection or has another legal status;
- Client is in default. The group defines default as the point at which the client is past due on 2 contractual payments;
- Loans which applied for debt review less than 6 months ago which are currently performing;
- Up-to-date loans that rescheduled from up-to-date (not yet rehabilitated);
- Loans that are currently up to 1 month in arrears that were previously rescheduled but have not rehabilitated; or
- Up-to-date loans that rescheduled from arrears (not yet rehabilitated).

(ii) Business

The group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets 1 or more of the following criteria:

Quantitative criteria

The borrower is more than 3 months past due on its contractual payments (rebuttable presumption).

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where, *inter alia*:

- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);

- an active market for the financial assets has disappeared because of financial difficulties;
- concessions have been made by the group relating to the borrower's financial difficulty/ inability to meet contractual obligations and the borrower is in arrears; or
- it is becoming probable that the borrower may enter bankruptcy.

A rebuttable assumption is applied and the financial instrument is considered impaired if the borrower is more than 3 months past due on its contractual payments.

2.5.1.2.2 *Measurement*

ECL is calculated as an unbiased, probability weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward-looking.

The most significant class of financial asset subject to an ECL is loans and advances.

The period over which the ECL is calculated is limited to the maximum contractual period.

The resultant ECL calculation amounts to the excess of the carrying amount above the present value of its expected cash flows, discounted using the effective interest rate on the financial instrument as calculated at initial recognition (initiation fee plus interest).

(i) Retail

Loans and advances comprise a large number of small, homogeneous assets.

An ECL provisioning model based on historical roll rates using the Markov chain method is used.

The Markov roll rate results are stratified into similar groups to ensure results are stable and appropriate to predict future cash flows for clients with similar characteristics. Aspects such as client risk groups, time on book, product term, payment frequency (monthly, fortnightly or weekly), default statuses, employment, industry and rescheduling status and the behaviour score of the client are stratified.

Furthermore, 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 as balance, interest rate, fees, remaining term, instalments and arrears status, combined with the roll rates applicable to loans with the same characteristics, enable the bank to estimate the expected cash flow and balance amortisation of the loan. The rolled up results enable the retail banking segment to analyse portfolio and segmented views.

To determine the expected credit losses on the credit card portfolio the group models the probability of an account entering default, the average exposure when an account enters default and the loss given default based on historic trends. Clients are grouped together according to similar risk characteristics and historic default performance is projected into the future on the current non-default portfolio. The expected future incremental loss is discounted to a present value and is used as the impairment on the portfolio.

For loan commitments the loss allowance is recognised as a provision. For contracts that contain both a drawn and undrawn portion and the group cannot separately identify the expected credit losses on the commitment portion from those on the loan component, the expected credit losses on the undrawn component are recognised together with the drawn component. To the extent that the expected credit losses exceed the gross carrying amount of the loan the excess is recognised as a provision.

Forward-looking economic assumptions are incorporated into the model where relevant and where they influence credit risk. These assumptions are incorporated using the group's most likely forecast for a range of macro-economic assumptions. Three forward-looking scenarios are incorporated into the range of reasonably possible outcomes (negative, positive and baseline scenarios).

2. Accounting policies (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets (continued)

2.5.1.2 Impairment (continued)

2.5.1.2.2 Measurement (continued)

(ii) Business

The extent of the ECL allowance for financial assets measured at amortised cost is calculated using complex models and significant assumptions about future economic conditions and credit behaviour.

The ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each future month and for each individual exposure. These 3 components are multiplied and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The portfolios are based on product type. These product types include: current accounts, credit cards, instalment sales and leases, structured loans and medium term loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12 month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis; and
- For revolving products, the EAD is predicted by adding a "credit conversion factor" to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default.

The 12 month and lifetime LGDs are determined based on the factors that impact the recoveries made post-default.

- For secured products, this is primarily based on collateral type, projected collateral values and time to recovery; and
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change, etc. are monitored and reviewed periodically. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The current risk assessment framework for business banking includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate enough forward-looking assessment. Additional ECL are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

2.5.1.2.3 Impairment – loan write-offs

Write-off is a derecognition event.

Loans and advances are written off when it is has been determined that no reasonable expectation of recovery either in its entirety or in portion exists.

(i) Retail

The group considers the point at which there is no reasonable expectation of further recovery to be when the loan has a present value of future recovery less than 5% of the gross balance before write-off. This is currently estimated based on account status, behavioural score and consecutive missed payments.

This point is currently estimated as loans:

- Terminated from debt review:
  - 4 consecutive missed payments (after allowing 3 months for administration).
- Loans that have been handed over/other legal status:
  - handover score less than a predetermined threshold; or
  - handover score more than a predetermined threshold and 4 consecutive missed payments (after allowing 3 months for administration).

Where actual cash inflows exceed the amount written off, the excess is disclosed as bad debts recovered.

(ii) Business

Loans and debt securities are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or a portion of it). This is the case when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.

The business banking segment may apply enforcement activities to financial assets written off. Recoveries resulting from the group's enforcement activities will result in bad debts recovered.

2.5.1.2.4 Modification and derecognition

Financial instruments are derecognised when

- The contractual rights or obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- They are transferred and the derecognition criteria of IFRS 9 are met; or
- The contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

If the contractual cash flows of a financial asset measured at amortised cost are modified (renegotiated or rescheduled), the group considers whether this is a substantial modification to the original terms, or if the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification. If changes are made as part of a distressed modification, the group does not derecognise the original financial asset. The group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flow discounted at the loan's original effective interest rate. The difference between the recalculated gross carrying amount and the gross carrying amount before the modification is recognised as a modification gain or loss.

If the changes are considered to be substantial modification, the group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates the effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

2. Accounting policies (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets (continued)

2.5.1.2 Impairment (continued)

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances

Up-to-date loans and advances, rehabilitated rescheduled loans	Clients that are fully up-to-date with their original contractual obligations or clients with amended contractual obligations and that have rehabilitated post rescheduling, are classified as up-to-date. SICR is identified for loans and advances that are up-to-date, but have reached certain behavior risk thresholds or specific events have occurred that raise SICR flag in the model.
Retail loan consolidations	Loan consolidations occur where a client with an existing retail unsecured loan applies for further credit. A consolidation loan would always be a result of a full credit assessment process that all clients (both new and existing) go through when applying for new credit, to check whether the client can afford the additional credit applied for. The outcome of that full credit assessment process is either a consolidation loan, a new separate loan or no new loan granted. These loans are not seen as modifications.
Up-to-date loans and advances, rehabilitated rescheduled loans	Clients that are fully up-to-date with their original contractual obligations or clients with amended contractual obligations and that have rehabilitated post rescheduling, are classified as up-to-date. SICR is identified for loans and advances that are up-to-date, but have reached certain behavior risk thresholds or specific events have occurred that raise SICR flag in the model.
Retail loan consolidations	Loan consolidations occur where a client with an existing retail unsecured loan applies for further credit. A consolidation loan would always be a result of a full credit assessment process that all clients (both new and existing) go through when applying for new credit, to check whether the client can afford the additional credit applied for. The outcome of that full credit assessment process is either a consolidation loan, a new separate loan or no new loan granted. These loans are not seen as modifications.
Rescheduling (retail banking segments)	Rescheduling refers to an amendment of the original terms of the loan contract, as formally agreed between the group and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact the 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 and the IRR of the loan is unchanged. Rescheduled loans do not form part of loan sales.
Rehabilitated	Clients with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 months post rescheduling and are up-to-date with their amended contractual obligations. This is supported by statistical analysis.

Rescheduling (business banking segment)	Rescheduling refers to an amendment of the original terms of the loan contract. This can be done in the normal course of business (defined as a restructure) and is classified as stage 1 while the borrower is up-to-date. Rescheduling can also be used as a rehabilitation mechanism for clients that would otherwise not be able to meet their commitments (defined as distressed restructure). A reschedule is classified as stage 1 when the borrower has rehabilitated and is up-to-date. A reschedule where the borrower is in arrears is classified as stage 3.
Rescheduled from up-to-date not rehabilitated (retail banking segments)	These are loans and advances relating to clients that were fully up-to-date with their original contractual obligations, have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payment under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made payments for 6 consecutive months under the amended contract. Loans rescheduled from up-to-date are considered to be stage 1 once these loans have rehabilitated, unless their behavior score is seen as a SICR, in which case the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Rescheduled from arrears not rehabilitated (retail banking segments)	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. Loans rescheduled from arrears are considered to be stage 1 once these loans have rehabilitated, unless their behavior scores are seen as a SICR, where the client will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Application for debt review	Clients that apply for debt review are identified as credit impaired, and the related loan classified as stage 3 for the first 6 months following application. Clients that applied for debt review more than 6 months ago that are up-to-date are identified as SICR and the related loan classified as stage 2 between 6 to 12 months following application. If clients applied for debt review more than 12 months ago, and remained up-to-date, the related loan is classified as stage 1 subject to the SICR assessment.
Arrears	Arrears reflect the outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid past the contractual payment date. The arrears balance therefore includes rescheduled loans when the amended instalment was not paid in full.
Forward-looking macro-economic assumptions	IFRS 9 requires that forward-looking macro-economic assumptions be applied to both the 12 month and lifetime ECL calculation.

2. Accounting policies (continued)

2.5 Financial instruments (continued)

2.5.2 Financial liabilities

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at FVTPL, 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.

2.5.2.1 Hedging activities

The group designates certain derivatives as:

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

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

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

2.5.2.1.1 Treatment of hedges qualifying as cash flow hedges

The group will continue to apply IAS 39 to hedge accounting with the disclosures required by IFRS 7.

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 in the income statement immediately.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within interest expense. Refer to note 45 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 FVTPL disclosed under operating expenses.

At the inception of the transaction the group designates the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in shareholders' equity are shown in note 26.

2.5.2.1.2 Treatment of economic hedges classified as FVTPL

Where applicable changes in the fair value of these derivatives classified as FVTPL are taken to profit or loss immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 45.

2.6 Intergroup loans

Loans to group companies are repayable on demand, bear interest as agreed by the parties from time to time and no fixed repayments terms have been set, with the exception of the facility granted to Mercantile Rental Finance Proprietary Limited. This facility bears interest, is repayable on demand and no fixed repayment terms have been set.

2.7 Current tax

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

2.8 Deferred tax

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

The principal temporary differences arise from depreciation of property and equipment, expected credit losses, 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 the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (a) the same taxable entity; or (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.9 Property and equipment

Land and buildings comprise owner-occupied properties and land being developed. All owner-occupied properties and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land is not depreciated.

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

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

• Automated teller machines	10 years
• Banking application hardware	3 – 5 years
• Computer equipment	3 –7 years
• Motor vehicles	5 years
• Office equipment	5 –10 years
• Leasehold improvements	5 – 10 years
• Buildings	50 years

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

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

2.10 Intangible assets

2.10.1 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 programs are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and unique systems controlled by the group, and that will probably generate economic benefits beyond 1 year, are recognised as intangible assets. Other development expenditures are recognised as an expense as incurred.

2. Accounting policies (continued)

2.10 Intangible assets (continued)

2.10.1 Computer software (continued)

Amortisation on computer software is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which currently are as follows:

• Banking application software	6 years
• Desktop application software	2 – 4 years
• Server software	3 – 5 years

2.10.2 Internally generated intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation on internally generated intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which currently are as follows:

- Internally generated intangible assets 3 – 10 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

2.10.3 Core deposit intangible

The core deposit intangible is the intangible benefit of having acquired a readily available source of lower cost funding rather than having to source funding from the open market. The lower cost funds provide a substantial economic benefit and this benefit is therefore recognised as an intangible asset.

Core deposits are valued using the income approach (cost savings method), where savings in funding costs are considered as notional income and are capitalised over the useful life of deposits.

Amortisation of core deposit intangibles is calculated using the straight-line method to allocate their cost over their estimated useful lives, which is currently 7 years.

2.10.4 Client relationships

The client relationship represents future economic benefits in the form of future business with a client beyond the amount secured by any current contractual arrangements.

Client relationships are valued using the multi-period excess earnings method for the divisions of Mercantile Bank Limited identified.

Amortisation of client relationships is calculated using the straight-line method to allocate their cost over their estimated useful lives, which is currently 7 years.

2.10.5 Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of the acquisition.

Goodwill arising on the acquisition of subsidiaries is reported in the statement of financial position as part of "goodwill and other intangible assets".

Goodwill is tested annually for impairment unless there is an impairment indicator, in which case the test is performed more than once a year.

2.11 Impairment of non-financial assets

Equipment and other non-financial assets (for example 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 fair value less cost to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Share capital

2.12.1 Categories of share capital

Authorised share capital consists of:

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

2.12.2 Share issue costs

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

2.12.3 Dividends declared

Dividends on ordinary shares and preference shares 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.

2.13 Employee benefits

2.13.1 Pension obligations

The group contributes to provident and retirement funds classified as a defined contribution fund.

For defined contribution plans, the group pays fixed contributions to privately administered provident or retirement fund plans on a contractual basis. The group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.13.2 Share-based compensation

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

2. Accounting policies (continued)

2.13 Employee benefits (continued)

2.13.3 Performance incentive scheme

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

The amount recognised as a liability is the present value of the obligation at the end of the reporting period.

The rate used to discount the obligation is determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of the bonds is consistent with the currency and term of the obligation.

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

2.13.4 Post-retirement medical benefits – Mercantile Bank Limited employees

The group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the group's medical aid scheme prior to May 2000, who elected to retain benefits in 2005, and are based on these employees remaining in service up to retirement age.

The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the current services costs of providing post-retirement medical benefits are recognised in profit or loss.

The effect of settlements on the liability is recognised in profit or loss and any remeasurement of the defined benefit liability (which include actuarial gains and losses) is recognised in other comprehensive income.

The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

2.14 Foreign currency translation

2.14.1 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 group's functional and presentation currency.

2.14.2 Transactions and balances

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

2.15 Net insurance receivable

Insurance contracts are defined as those contracts or agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the issuer of the insurance contract to pay significant additional benefits as envisaged at the inception of the contract. Such contracts remain designated as insurance contracts until all rights and obligations are extinguished or expire.

The group has provided capital to the third-party cell captive and allows the group to benefit from the ring-fenced insurance business. The cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell.

The cell captive arrangement exposes the group to insurance risk on the reinsured and retained insurance risk components in the cell captive. The group's insurance risk on the reinsured component relates to the risk that the reinsurer will fail to honour its obligations under the reinsurance agreement. The group's insurance risk on the retained component relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

With respect to the retained insurance risk, judgement is required in determining the actuarial movements of the insurance contract liabilities held by the cell captive. There is uncertainty with regard to the claims that will be made by clients, which is dependent on a number of unpredictable factors. The group makes this judgement based on the best estimate and in accordance with Standards of Actuarial Practice (SAP) 104 principles.

The insurance risk associated with the investment in the cell captive arrangement is disclosed as a non-current asset in the statement of financial position as "Net insurance receivable".

2.16 Revenue recognition

2.16.1 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income and expense 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 through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, which is the effective interest rate calculated at origination of the financial asset measured at amortised cost.

Loan origination fees that relate to the creation of a financial asset are amortised over the expected term of the loan on an effective interest rate basis and included in interest income.

2.16.2 Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided.

Loan fee expenses comprise credit insurance premiums paid and are recognised when the services are received from the first-party credit life insurance cell captive.

2.16.3 Transaction income and expenses

Transaction income and expenses are recognised on an accrual basis in the period in which the services are rendered. The performance obligations are met at a point in time. Card commission income and expenses are from the group's ATM and POS networks.

Transaction fee income and expenses arise due to the use of the group's branch, ATM network, and along with the various electronic banking channels that the group has, namely the banking app, USSD and internet banking platform.

2.16.4 Dividend income

Dividend income is recognised in the income 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. Accounting policies (continued)

2.16 Revenue recognition (continued)

2.16.5 Net insurance income

Net insurance income represents the movement before distributions paid to the group in the net insurance receivable and comprises profits from the third-party cell captive after reinsurance and tax. Investment returns have been included in interest income.

2.16.6 Funeral income

Funeral income comprises dividends and commissions from a cell captive profit sharing arrangement after reinsurance.

Capitec entered into a cell captive agreement that is 100% reinsured by a third party. The group is the owner of a cell, through a preference share investment, that holds the credit insurance underwritten by the cell captive insurer. This preference share investment is classified as a receivable measured at FVTPL. Due to the reinsurance risk being transferred to the third party, Capitec does not have any obligation to recapitalise the cell should any losses be suffered on in-force policies.

Funeral income is received from the cell captive as a dividend after tax. The tax expense is included in funeral income.

2.16.7 Foreign currency income

Foreign currency income arises from exchange gains and losses on settlement or remeasurement to fair value at each reporting date of foreign exchange contracts and foreign currency swaps, and includes fees and commissions arising from foreign currency transactions which are recognised on an accrual basis.

2.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The executive management committee, headed by the chief executive officer (CEO) has been identified by the group as the CODM, who is responsible for assessing the performance and allocation of resources of the group.

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

2.18.1 IFRS 16 Leases (effective 1 March 2019)

IFRS 16 *Leases* was effective from 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 therefore 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.

Policy applicable before 1 March 2019

For contracts entered into before 1 March 2019, the group determined whether the arrangement was, or contained, a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Under IAS 17

Assets held under an operating lease agreement were not recognised in the group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

Policy applicable from 1 March 2019

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assess whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be a physically distinct asset. If the supplier has a substantive right, then the asset is not identified;
- the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the group has the right to direct the use of the asset. The group has the right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either: (1) the group has the right to operate the asset; or (2) the group designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed on or after 1 March 2019.

At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

Where the group is the lessee

The group recognises a right-of-use asset and a lease liability at the lease commencement date. 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 costs 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 asset. 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 those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease 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 the 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 3 monthly swap curve and the basis for this curve is the 3 monthly Johannesburg Interbank Agreed Rate (JIBAR). The term structures of 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.

2. Accounting policies (continued)

2.18 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial year (continued)

2.18.1 IFRS 16 Leases (effective 1 March 2019) (continued)

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; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Leases – 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 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; and
- 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 utilized 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 billion in undiscounted operating lease commitments.

Short-term and low-value leases

The group has 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 information technology 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. The instalment sale agreements are granted to finance motor vehicles and equipment of our business banking clients.

ECL is measured either on a 12 month or lifetime basis depending on whether a SICR has occurred initial recognition or whether an asset is considered to be credit impaired. Measurement considers forward-looking information. ECL is the discounted result of PD, EAD and LGD without factoring in any collateral or residual values in the LGD.

Rights are accorded to the Suppliers and Business partners to buy back the assets on the termination of the lease agreement once the last rental has been paid. These are normally nominal values as invariably the life of the asset equates to the period of the lease or close thereto. Evergreen arrangements can be made where the client continues to utilise the asset after the term of the agreement is concluded and continues to pay rental, This could run for as long as 24 months but often after 1 year the contract is cancelled and the ownership of the asset passes to the client for 3 months' rental. If the rental agreement does not proceed to term due to arrears on the account the asset is repossessed and disposed of at market related prices. In many instances the Supplier may make an offer on the asset, refurbish it and put it back into the market or if not possibly buy it for spares. A condition embedded within the rental agreement is that the client is accountable for insuring the asset over the term of the rental agreement should the asset be lost, stolen or destroyed.

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.

2. Accounting policies (continued)

2.18 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial year (continued)

2.18.1 IFRS 16 Leases (effective 1 March 2019) (continued)

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 and 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.

Consolidated statement of cash flows

The group has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the group; and
- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

2.18.2 *Other*

Title	Impact
Interpretation 23 *Uncertainty over income tax treatments* (effective 1 January 2019)	There is no material uncertainty over income tax treatment for the group as at 29 February 2020.
Amendments to IFRS 9 *Financial instruments* (effective 1 January 2019) prepayment features with negative compensation	The standard enables entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at FVTPL. To qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract" and the asset must be held within a "held to collect" business model. There is no impact on the group
Amendments to IAS 28 *Long-term interests in associates and joint ventures* (effective 1 January 2019)	There is no significant impact.
Amendments to IAS 19 *Employee benefits*, plan amendment, curtailment or settlement	The amendments to IAS 19 *Employee benefits* clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change.
Annual improvements to IFRS 2015 – 2017 cycle	

These amendments have no impact on measurements of assets and liabilities at the previous year-end. Comparatives are provided for new disclosures where required by the standards.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2020 or later periods but which the group has not early adopted.

Title	Impact
IFRS 17 *Insurance contracts* (effective 1 January 2023)	The group has not yet assessed the impact IFRS 17 will have on the insurance liabilities contained within the net insurance receivable presented on the face of the statement of financial position.
Definition of Material – Amendments to IAS 1 and IAS 8 (effective 1 January 2020)	Low. The group has not yet assessed the impact of the amendments
Definition of a Business – Amendments to IFRS 3 (effective 1 January 2020)	Low. The group has not yet assessed the impact of the amendments
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure* – Interest rate benchmark reform	Low. These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to be disqualified. However, any hedge ineffectiveness should continue to be recorded in the income statement.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements for the group requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management applies their judgement based on historical evidence, current events and actions that may be undertaken in future. Actual results may ultimately differ from estimates. The following represents the most material estimates and judgements applied in preparing these financial statements. The determination of the Expected Credit Losses (ECL) on loans and advances and accounting for the acquisition of Mercantile Bank Holdings Limited (Mercantile) represent the most material assumptions, estimates and judgements applied in preparing these financial statements.

3.1 Judgements

3.1.1 Significant increase in credit risk (SICR)

In terms of IFRS 9, all loans and advances are assessed at each reporting date to determine whether there has been a SICR. In cases where SICR has occurred an impairment equal to the lifetime ECL is recognised. If, at reporting date the credit risk has not increased significantly the group recognises a 12 month ECL. The group identifies SICR on clients that are up-to-date on their loans but who have been subject to SICR events.

(i) Retail

The retail banking segment of the group considers the following to be SICR events:

- Shifts in behaviour score beyond certain thresholds. A behaviour score is utilised in the ECL model to provide a measure of a client's propensity to default in the next 12 months. The score was built on a client level using Capitec's loan and savings account behaviour, as well as credit exposure and payment behaviour at external credit providers. The score is updated monthly on all existing loan clients to ensure a consistent view of the client. The score also separately considers the performance of rescheduled accounts, which are assumed to have rehabilitated if they have made contractual payments for 6 months and are up-to-date with their amended contractual obligations;
- A granting score that is below the threshold set by the group. The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposures that share similar credit characteristics, such as employer group, in order to account for forward-looking information that may not be identified at an individual loan level;
- Clients that have been reported as unemployed, impacting on granting scores; and
- Term loans that are up-to-date while the client's credit card is in arrears, impacting on behaviour scores.

In addition, a lifetime ECL is recognised on all loans that reflect arrears.

2020

Impact of SICR on ECL		Positive	Base	Negative
Shifting of the SICR threshold by 5%*	R'm	**1 006**	**1 061**	**1 232**
Percentage change on total SICR ECL	%	**(5.2)**	**0.0**	**16.1**

2019

Impact of SICR on ECL		Positive	Base	Negative
Shifting of the SICR threshold by 5%*	R'm	633	771	852
Percentage change on total SICR ECL	%	(17.9)	0.0	10.5

* *Reflects the full stage 2 ECL if the deterioration or improvement in the factor used, as a behavioural or granting score threshold is stressed by 5%.*

(ii) Business

For both classes of the business book the following are considered to be SICR events. If the borrower is on the watch list and/or meets one of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the client operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant change in the operating results of the client;
- Significant change in the collateral value which is expected to increase the risk of default;
- Early signs of cash flow/liquidity problems such as delays in servicing trade creditors/loans; or
- If the client is more than 30 days past due on contractual payments. This is a backstop that is applied.

The ECL would increase by R7.1 million if a lifetime ECL was applied to 5% of the current stage 1 portfolio.

3.1.2 *Loan write-offs*

Loans are written off when there is no reasonable expectation of further recovery. Refer to note 2.5.1.2.3.

3.1.3 *Acquisition of Mercantile Bank Holdings Limited*

On 7 November 2019 (effective date of the acquisition) Capitec Bank Limited acquired 100% of the ordinary shares in Mercantile for a cash consideration of R3.56 billion. The fair value of the identified assets and liabilities of the business was R2.76 billion resulting in the recognition of R795 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 tangible and intangible assets and liabilities acquired 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 carrying amount of acquired assets and liabilities at acquisition date was considered to be a reasonable approximation of fair value at acquisition date. Contingent liabilities identified were not recognised because management considers the possibility of the contingent events occurring being remote. The acquisition resulted in the recognition of a core deposit intangible and a client relationship intangible. 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 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 reliably measured. The intangible assets are amortised over their useful lives as they do not have indefinite economic benefits.

3.1.3.1 *Intangible assets (other than goodwill) fair value determination*

Core deposit intangible

This is the intangible benefit of having acquired readily available client deposits at a less expensive rate than the buyer's marginal cost of funds. The economic benefit of the lower cost of funds is recognised as an intangible asset.

This intangible asset was valued using the net cost saving methodology. The cost saving is determined as the internal cost of funding arising from client deposits versus the prevailing market rate for alternative funding sources.

The following variables were utilised:

- Rate of attrition: 15% – 25%
- Remaining useful life: 7 years
- Internal cost of funding (varies according to product terms): 1.4% – 7.9%
- Alternative cost of funding premium: 0.25% – 0.5%
- Marginal cost of funding: 5.5% – 8.3%
- Discount rate (cost of equity): 13.9%

Client relationships intangible

Non-interest income is generated through a range of products and existing client relationships. It was considered to be an intangible asset due to the history of trade between Mercantile and its clients and the future economic benefit to be derived from these relationships.

The multi-period excess earnings method was applied to derive a value for the asset by reference to the operating margins directly attributable to the asset. Any notional charges for the utilisation of contributory assets was deducted. This methodology was applied to various categories of client relationships considering projected client churn and expected useful lives.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.1 Judgements (continued)

3.1.3 Acquisition of Mercantile Bank Holdings Limited (continued)

3.1.3.1 Intangible assets (other than goodwill) fair value determination (continued)

Cost of equity used as a discount rate

The cost of equity was used to discount future cash flows and was determined based on the capital asset pricing model (CAPM). For purposes of the valuation the following assumptions were used:

Key assumptions	Approach to determining value	Value
Risk free rate	10 year South African government bond rate	9.2%
Equity risk premium	Available studies from Ibbotson®, SBBI® valuation year book, Damodaran studies, ERP implied by stock markets and others	0.76%
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	6.1%
Cost of equity		13.9%

Deferred tax was accounted for on the identified intangible assets. Goodwill is not subject to deferred tax.

Mercantile was acquired as a business bank and its operations and goodwill will be monitored by Capitec management as a separate cash generating unit (CGU) from Capitec's retail operations.

3.1.3.2 Intangible assets: Goodwill impairment determination

For goodwill, inherent judgement involved in the valuation of the identifiable assets and liabilities directly impacts on the amount of goodwill recognised as the excess of the purchase price over the fair value of the acquired business.

Goodwill is tested annually for impairment unless there is an indicator of impairment, in which case the test is performed more than once a year. The goodwill allocated to the Mercantile cash generation unit (CGU) as at 29 February 2020 is R794 million. The recoverable amount of the Mercantile Bank Holdings Limited CGU was determined and tested for impairment at date of acquisition based on a fair value less costs to sell assessment. As at 29 February 2020, management reviewed the assumptions and estimates used in the impairment calculation and determined that the recoverable amount still exceeds the carrying amount.

The fair value less costs to sell is calculated using a dividend discount model (DDM) taking into account dividend flows for the 10 year forecast period. A forecast period of greater than 5 years has been used in order to take into account the level of development expected from leveraging the Capitec Bank brand and Mercantile business banking process. A terminal value is determined using a Gordon's Growth Model calculation.

The calculation used cash flow projection based on financial budgets approved by management and other management assumptions as per the below table. The various growth rates applied to the variables is consistent with forecasts included in industry reports specific to the industry in which the CGU operates, historic performance, management's expectation of market developments and management's forecast of new client revenues, which management believe will result from leveraging the Capitec Bank brand and Mercantile business banking process. The terminal growth rate does not exceed the historic long-term average growth rate for the country.

The dividend pay-out ratio used to determine the dividend cash flows to be discounted was based on Mercantile's historic dividend pay-out ratio of 20% increased over time for growth thereafter up to 65% in the terminal year.

The future dividend cash flows were discounted using the expected rate of return, which reflects specific risks relating to the CGU, while maximising use of market observable data. The expected rate of return was calculated using the capital asset pricing model (CAPM). A post-tax discount rate was used to discount post-tax cash flows in the determination of fair value less costs to sell.

A stress of any one of the key assumptions as per the table below will not result in an impairment as the recoverable amount is sufficiently in excess of the carrying amount.

The table below sets out the key assumptions and the related stress:

Key assumptions*	Value	Stressed value
Net growth rate	13.5% – 14.5%	13.0% – 14.0%
Dividend pay-out rate	20.0% – 65.0%	20.0% – 65.0%
CAPM discount rate	13.9%	14.1%
Terminal growth rate	5.5%	5.0%

* *In the fair value hierarchy these unobservable inputs would be described as level 3.*

The impact of COVID-19 on financial goodwill impairment assumptions

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 end of the reporting period which is 29 February 2020. Judgement is involved in assessing the point in time when sentiment changed to viewing COVID-19 as a South African pandemic. In making this assessment, we considered that the South African stock market fell substantially on 12 March 2020, which was the sixth worst performance of the JSE since 1978. This aligned to when the global spread of the virus and closure of businesses accelerated beyond all expectations, leading to a revision of global economic growth forecasts. Public announcements were made on 15 March 2020 and 23 March 2020 declaring a State of National Disaster with further measures implemented on 23 March 2020. We considered that there were no reported infections in South Africa at 29 February 2020 and the likelihood of this evolving into an epidemic in South Africa was considered to be small considering the geographic distance. This changed as significant trading partners across Europe were now impacted, resulting in infections. The president's announcement on 15 March 2020 confirmed that the virus had become a local pandemic.

As such, it was concluded that COVID-19 is a non-adjusting post balance sheet event. Forward-looking growth rates applied in estimating future cash flows were adjusted downwards by 19% for year 1, to the extent that information was available at 29 February 2020.

3.2 Estimates

3.2.1 Forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future losses should take into account changes in the economic environment in the future.

(i) Retail

The group utilises the Bureau of Economic Research (BER) macro-economic outlook as at October 2019 for the country over a planning horizon of at least 3 years to estimate the effects of changes to the economic environment. The assets and liabilities committee (ALCO) reviews and approves the outlook.

Three economic scenario's (negative, baseline and positive) are taken into account when calculating the impact of macro-economic factors on ECLs. The probability of each scenario is estimated by management. Management has assigned a probability of 60% to the baseline scenario, 35% to the negative scenario and 5% to the positive scenario for the 12 month forecast. This is similar to the prior year. However, the macro-economic outlook to which these weightings has been applied is more negative.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Estimates (continued)

3.2.1 Forward-looking information (continued)

The relevance of the outlook to Capitec's loan book is proven by a historic linear relationship to a change in a basket of macro-economic variables. These variables are:

2020

	BER view (October 2019)		Stressed view that was applied (February 2020)	
Macro-economic variable	**Bad**	**Good**	**Bad**	**Good**
Petrol price (y-o-y % change)	11.0	0.8	11.0	0.8
CPI (y-o-y % change)	5.2	4.1	5.2	4.1
Unemployment rate %	30.1	28.1	32.1	28.8
Real wage rate (y-o-y % change)	(2.0)	1.3	(6.5)	1.3
Real credit extension (y-oy % change)	0.2	3.0	(4.2)	3.0

2019

Macro-economic variable	Capitec weighted average
CPI (y-o-y % change)	5.9
Unemployment rate %	28.9
Real wage rate (y-o-y % change)	0.9

The impact of COVID-19 on macro-economic variables

As noted under 3.1.3.2. above, it was concluded that COVID-19 is a non-adjusting post balance sheet event. As such, only information available up and to 29 February 2020 was considered in determining the severity of the negative economic scenario applied.

This was done by stressing three of the macro-economic variables in the BER scenario table reflected above, to the values as indicated. The stresses were determined by considering that the highest historical South African unemployment rates were between 31% and 32%. During the global economic crisis of 2008, the real wage rate was -4.5% and the real credit extension rate was approximately -3.5%. In determining the stresses, the impact of the potential cuts to the government wage bill were also considered.

The stress applied to the scenarios is included in the table above. The resulting impact of forward-looking information on ECL based on the 3 scenarios is reflected below.

2020

Impact of forward-looking information on ECL	R'm	% change in ECL
Probability weighted impact of all 3 scenarios	649	
100% negative scenario	816	26
100% baseline scenario	574	(12)
100% positive scenario	367	(43)

2019

Impact of forward-looking information on ECL	R'm	% change in ECL
Probability weighted impact of all 3 scenarios	361	
100% negative scenario	480	33
100% baseline scenario	390	8
100% positive scenario	294	(19)

(ii) Business

Currently the business bank does not make use of specific macro-economic forward-looking scenarios due to the lack of adequate correlation in the performance of its loans and advances relative to macro-economic indicators or an index of these indicators. A management overlay is applied for specific types of exposure based on expert collaborative opinions and assessments.

In addition to the specific management overlay mentioned above the following parameters based on expert judgement were applied to the model based on recent events in lieu of macro-economic forward-looking scenarios:

- Increased time to recover for all collateral types.
- Increased general probabilities of default (PDs).
- Took haircuts on residential properties based on the value of the property.
- Took haircuts on commercial properties based on the value of the property.

The above haircuts were applied to all collateral in the portfolio and not only on the non-performing portion of the book.

These assumptions resulted in an additional impairment of R13 million.

The impact of COVID-19 on macro-economic variables

Management considered information available at 29 February 2020 and its impact on expert collaborative opinions and assessments applied, and estimated the impact to be R23 million. Sensitivities applied to estimate the impact included:

- An increased probability of default (PD) of 5% for all exposures;
- An increase in the estimate of time to recover assumptions on specific collateralised assets;
- A re-evaluation of anticipated recoveries on collateral currently in the collection process; and
- The identification of specific industries where clients are more likely to be affected and the estimation of the probability of these clients migrating to a stage 2 lifetime ECL.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Estimates (continued)

3.2.2 Event-driven management credit estimates

(i) Retail

Certain events/risks that may not be incorporated into the statistical forward-looking model arise from time to time. In such instances, the additional inclusions in the ECL over and above the adjustments to ECL arising from forward-looking information are reviewed and approved by the credit committee (CC) on a monthly basis.

Events for which an amount was added to the ECL include the introduction of DebiCheck. DebiCheck will have an impact on the collection of cash flows on loans and advances where clients move their bank accounts, change debit order dates or where there are changes in the rescheduled contractual cash flows. If clients fail to electronically confirm updated debit orders, the group could fail to collect the agreed upon instalment, on the agreed upon date.

Similarly, the ruling by the Gauteng High Court regarding the use of common law set-off for the collection of instalments on credit agreements, was considered.

3.2.3 Modelling assumptions

(i) Retail

Historical data may not always be reflective of the future. The way in which it is used by the statistical models (PD, EAD and LGD) to estimate the timing and amount of the forecast cash flows based on historical default data, roll rates and recoveries, requires consideration of subsegments.

These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status as well as the behaviour score of the client.

(ii) Business

Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the business group expects to receive, taking into account cash flows from any collateral.

The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realise collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral, cure rates (i.e. exit from non-performing status).

4. 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.

The Mercantile group is a separate reporting segment. Refer to note 33.

In the 4 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 ended 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'000	Fair value
Cash, cash equivalents and money market funds	4 592 930
Financial investments	786 290
Net loans and advances	10 141 010
Trade and other receivables	376 532
Derivative financial instruments	62 445
Financial assets	8 078
Property and equipment	239 579
Right-of-use asset	14 339
Intangible assets	96 836
Core deposit intangible	80 780
Client relationships intangible	17 721
Deferred income tax asset	42 434
Derivative financial instruments	(59 412)
Current income tax liability	(34 654)
Deposits	(11 743 652)
Other liabilities	(396 372)
Wholesale funding	(1 244 970)
Lease liability	(14 971)
Provisions	(104 470)
Deferred income tax liability	(99 186)
Fair value of identifiable net assets including identified intangibles	**2 761 287**

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 of R80.8 million 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.

4. Business combination (continued)

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. Refer to note 3.1.3.1 for detail on these.

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 instruments, convertible to known amounts of cash instruments.

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

R'000	Gross loans and advances	ECL	Net amount	Fair value
Business other	5 014 835	(207 380)	4 807 455	4 807 455
Mortgage loans	5 392 919	(59 364)	5 333 555	5 333 555
Trade and other receivables	376 532	–	376 532	376 532
Total	10 784 286	(266 744)	10 517 542	10 517 542

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'000
Total consideration transferred	3 555 772
Fair value of identifiable net assets	(2 761 285)
Goodwill	794 487
Purchase consideration – cash inflow	
Outflow of cash to acquire Mercantile Bank	3 555 772
Less: cash balance acquired	(4 593 222)
Net inflow of cash – investment activities	(1 037 450)

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.

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

5. Cash, cash equivalents and money market funds

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Cash on hand	3 132 156	3 601 994	3 107 346	3 601 994
Rand-denominated bank balances	12 057 350	13 222 529	11 309 976	13 222 529
Foreign currency-denominated bank balances	1 051 447	–	–	–
Resale agreements: corporate	607 186	506 222	607 186	506 222
Resale agreements: banks	23 482 481	10 605 141	23 482 481	10 605 141
Central bank balances				
Mandatory reserve deposits with central bank[2]	1 863 408	1 163 650	1 616 827	1 163 650
Cash and cash equivalents	42 194 028	29 099 536	40 123 816	29 099 536
Non-cash adjustment: ECL	(2 031)	(4 315)	(1 870)	(4 315)
Money market unit trusts	25 374	35 496	25 374	35 496
Total cash, cash equivalents and money market funds[1]	42 217 371	29 130 717	40 147 320	29 130 717
Maximum exposure to credit risk	42 217 371	29 130 717	40 147 320	29 130 717
Current	42 217 371	29 130 717	40 147 320	29 130 717

Stage 1 with no movement between stages
12 month ECL of R2.0 million (28 February 2019: R4.3 million)

[1] *Cash, cash equivalents and money market funds are classified as financial assets measured at amortised cost.*
[2] *Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations levelled by the central bank within South Africa. These deposits bear no interest.*

6. Financial investments[1]

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Interest-bearing instruments[2]				
Balance at the beginning of the year	10 732 394	11 780 934	10 732 394	11 780 934
Acquisition of subsidiary[3]	786 290	–	–	–
Additions[4]	17 044 153	12 611 392	16 494 410	12 611 392
Interest accrued	1 100 045	891 332	1 080 620	891 332
Movement in ECL	272	(8 663)	281	(8 663)
Maturities – capital[4]	(11 645 092)	(13 655 132)	(11 172 903)	(13 655 132)
Maturities – interest accrued	(810 968)	(887 469)	(805 092)	(887 469)
Total investments at amortised cost	17 207 094	10 732 394	16 329 710	10 732 394
Maximum exposure to credit risk	17 207 094	10 732 394	16 329 710	10 732 394
Current	17 207 094	10 732 394	16 329 710	10 732 394

Stage 1 with no movement between stages
12 month ECL of R8.4 million (28 February 2019: R8.7 million)

[1] *Financial investments are measured at amortised cost.*
[2] *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).*
[3] *Financial investments acquired due to the Mercantile acquisition consist of government bonds and treasury bills.*
[4] *On the statement of cash flow under investing activities, acquisitions and redemption of financial investments has been shown as R16.5 million and R11.2 million respectively, as the acquisition and redemptions for financial investments included in business banking is included in operating activities. Refer to note 37.1.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

7. Financial assets at FVTPL

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Balance at the beginning of the year	–	–	–	–
Additions – capital	1 500 000	–	1 500 000	–
Capital growth	611	–	611	–
Interest accrued	8 513	–	8 513	–
Maturities – interest accrued	(4 862)	–	(4 862)	–
Total investments at fair value through profit and loss[1]	1 504 262	–	1 504 262	–
Maximum exposure to credit risk	1 504 262	–	1 504 262	–
Non-Current	1 504 262	–	1 504 262	–

[1] *Interest bearing collective investment scheme investments.*

8. Term deposit investments

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Balance at the beginning of the year	9 331 297	2 528 331	9 331 297	2 528 331
Additions	–	10 557 000	–	10 557 000
Interest accrued	396 018	442 787	396 018	442 787
Movement in ECL	2 888	(2 888)	2 888	(2 888)
Maturities - capital	(9 056 000)	(3 947 000)	(9 056 000)	(3 947 000)
Maturities - interest accrued	(674 203)	(246 933)	(674 203)	(246 933)
Total term deposit investments[1]	–	9 331 297	–	9 331 297
Maximum exposure to credit risk	–	9 331 297	–	9 331 297
Current	–	9 331 297	–	9 331 297

Stage 1 with no movement between stages
12 month ECL of Rnil million (28 February 2019: R2.9 million)

[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 34.1 for credit ratings. These factors were taken into account when determining the ECL.*

R'000	GROUP 2020	GROUP 2019[3][5]	COMPANY 2020	COMPANY 2019[3][5]

9. Net loans and advances

Loans and advances to clients

Maturity analysis

R'000	GROUP 2020	GROUP 2019[3][5]	COMPANY 2020	COMPANY 2019[3][5]
Current (less than 1 year)	23 883 214	18 051 595	20 813 130	18 051 595
Demand to 1 month	4 099 420	2 285 282	2 512 770	2 285 282
1 to 3 months	4 044 152	3 108 167	3 630 495	3 108 167
3 months to 1 year	15 739 642	12 658 146	14 669 865	12 658 146
Non-current (more than 1 year)	52 399 026	38 447 079	45 123 766	38 447 079
1 to 2 years	17 039 513	13 959 844	15 826 930	13 959 844
2 to 5 years	23 874 417	10 018 920	21 417 861	10 018 920
More than 5 years	3 624 564	8 903 518	598 974	8 903 518
Non - contractual[5]	7 860 532	5 564 797	7 280 001	5 564 797
Total	76 282 240	56 498 674	65 936 896	56 498 674
Loan origination fees	(500 502)	(608 742)	(500 502)	(608 742)
Gross loans and advances (gross carrying amount)[3][4]	75 781 738	55 889 932	65 436 394	55 889 932
Retail	65 436 394	55 889 932	65 436 394	55 889 932
Business other[2]	4 938 703	–	–	–
Mortgage loans	5 406 641	–	–	–
Provision for credit impairments (ECL)[3]	(13 740 179)	(11 380 627)	(13 424 711)	(11 380 627)
Retail	(13 424 711)	(11 380 627)	(13 424 711)	(11 380 627)
Business other[2]	(230 333)	–	–	–
Mortgage loans	(85 135)	–	–	–
Net loans and advances	62 041 559	44 509 305	52 011 683	44 509 305
Current	21 575 603	16 752 698	18 557 075	16 752 698
Non-current	40 465 956	27 756 607	33 454 608	27 756 607

Maximum exposure to credit risk

R'000	GROUP 2020	GROUP 2019[3][5]	COMPANY 2020	COMPANY 2019[3][5]
Loans and advances	76 282 240	56 498 674	65 936 896	56 498 674
Retail loan commitments[1][6]	1 521 927	911 740	1 521 927	911 740
Business loan commitments and guarantees[1][6]	942 674	–	–	–
Maximum exposure to credit risk	78 746 841	57 410 414	67 458 823	57 410 414

[1] *These are irrevocable loan commitments and guarantees that may be drawn down without any credit intervention from Capitec within 1 month.*

[2] *Business other are loans granted to our business banking clients, such as term loans, rental finance, structured loans, credit cards and mortgages.*

[3] *At 28 February 2019, the gross carrying amount 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. The 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 the net carrying amount i.e. after 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. Gross carrying amount as well as ECL has been grossed up by R1 016 billion at 28 February 2019. There is no impact on net loans and advances.*

[4] *The written-off balances that are subject to enforcement activities amount to R16.88 billion. Recoveries on these balances are included in bad debt recoveries.*

[5] *Comparatives previously did not disclose stage 3 loans more than 3 months in arrears and with legal statuses as non-contractual in the maturity analysis. The current year maturity analysis was amended to reflect this more granular disclosure and the prior year disclosure was amended.*

[6] *For loan commitments, the loss allowance is recognised as a provision. However, for contracts that contain both a drawn and undrawn component and the group cannot separately identify the ECL on the undrawn component, the expected credit loss is recognised with the loan component. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the excess is recognised as a provision.*

9. Net loans and advances (continued)

Credit risk exposure

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the group's maximum exposure to credit risk on these assets. Refer to note 2.5.1.2.5 for explanations of the terminology used.

Analysis of net loans and advances by stage – Business banking

2020

	Stage 1		Stage 2				Stage 3	
	12 month ECL		Lifetime ECL				Lifetime ECL	
R'000	Up-to-date[1]	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
Gross loans and advances	9 229 921	85 381	124 009	27 968	226 446	71 077	580 542	10 345 344
Business other	4 450 015	34 648	45 432	8 990	114 642	16 256	268 720	4 938 703
Mortgage loans	4 779 906	50 733	78 577	18 978	111 804	54 821	311 822	5 406 641
Provision for credit impairment (ECL)	(84 411)	(636)	(10 714)	(4 448)	(15 710)	(10 987)	(188 562)	(315 468)
Business other	(76 628)	(552)	(8 112)	(3 750)	(11 938)	(2 280)	(127 073)	(230 333)
Mortgage loans	(7 783)	(84)	(2 602)	(698)	(3 772)	(8 707)	(61 489)	(85 135)
	9 145 510	84 745	113 295	23 520	210 736	60 090	391 980	10 029 876
ECL coverage (%)	0.9%	0.7%	8.6%	15.9%	6.9%	15.5%	32.5%	3.0%

Credit Quality – Business banking

The internal credit rating risk buckets are determined subjectively. Parameters included but were not limited to arrears, industry and geographical risk, and whether reschedules were distressed or not, for stage 1 and stage 2. For stage 3, litigation, business rescue, sequestration and write-offs were considered.

R'000	Stage 1	Stage 2	Stage 3	Total
Low				
Business Other	3 829 125	11 282	15 184	3 855 591
Mortgage loans	4 573 665	23 833	76 460	4 673 958
Medium				
Business Other	175 360	7 595	17 833	200 788
Mortgage loans	67 871	27 042	76 680	171 593
High				
Business Other	480 177	166 443	235 703	882 323
Mortgage loans	189 104	213 305	158 682	561 091
On balance sheet	9 315 302	449 500	580 542	10 345 344
Low				
Business Other	441 911	–	–	441 911
Mortgage loans	256 914	2 064	–	258 978
Medium				
Business Other	4 091	–	–	4 091
Mortgage loans	13 350	–	–	13 350
High				
Business Other	218 120	–	–	218 120
Mortgage loans	633	5 591	–	6 224
Off balance sheet	935 019	7 655	–	942 674

[1] *Gross loans and advances of R9.2 billion comprise up-to-date loans of R9.1 billion, up-to-date loans that rescheduled from up-to-date and have rehabilitated of R58 million and up-to-date loans rescheduled from arrears that have rehabilitated of R40 million.*

Analysis of net loans and advances by stage – Retail banking

2020

R'000	Stage 1	Stage 2		Stage 3				Total
	12 month ECL	Lifetime ECL		Lifetime ECL				
	Up-to-date[1]	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
Gross loans and advances	**48 309 758**	**4 445 646**	**1 171 934**	**1 549 892**	**1 130 157**	**1 471 174**	**7 357 833**	**65 436 394**
Provision for credit impairments (ECL)	**(3 304 390)**	**(1 060 870)**	**(650 553)**	**(1 129 928)**	**(455 389)**	**(567 101)**	**(6 256 480)**	**(13 424 711)**
	45 005 368	**3 384 776**	**521 381**	**419 964**	**674 768**	**904 073**	**1 101 353**	**52 011 683**
ECL coverage (%)	**6.8%**	**23.9%**	**55.5%**	**72.9%**	**40.3%**	**38.5%**	**85.0%**	**20.5%**

2019

R'000	Up-to-date[1]	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
Gross loans and advances	41 582 114	3 764 623	1 086 541	1 483 459	900 536	1 354 430	5 718 229	55 889 932
Provision for credit impairments (ECL)	(2 671 379)	(770 597)	(581 911)	(1 192 123)	(388 968)	(616 793)	(5 158 856)	(11 380 627)
	38 910 735	2 994 026	504 630	291 336	511 568	737 637	559 373	44 509 305
ECL coverage (%)	6.4%	20.5%	53.5%	80.4%	43.2%	45.5%	90.2%	20.4%

[1] *Gross loans and advances of R48.3 billion (2019: R41.6 billion) comprise up-to-date loans of R45.5 billion (2019: R38.9 billion), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R2.0 billion (2019: R1.9 billion) and up-to-date loans that rescheduled from arrears and that have rehabilitated of R0.8 billion (2019: R0.8 billion).*

Credit Quality – Retail banking

The internal credit rating risk buckets used to explain low risk, medium risk and high risk are subjectively determined by bucketing accounts by behavioural scores. New loans may be granted to certain high-risk clients, depending on the credit-granting strategy and granting scorecards. The increased risk as a result of SICR and forward-looking information is set out in note 3.1.1 and note 3.2, respectively.

R'000	Stage 1	Stage 2	Stage 3	Total
Low	**31 792 825**	**1 059 775**	**35 613**	**32 888 213**
Medium	**14 594 772**	**1 722 835**	**643 207**	**16 960 814**
High	**1 922 161**	**2 834 970**	**10 830 236**	**15 587 367**
On balance sheet	**48 309 758**	**5 617 580**	**11 509 056**	**65 436 394**
Low	**1 333 587**	**17 247**	**–**	**1 350 834**
Medium	**100 079**	**21 551**	**–**	**121 630**
High	**29 196**	**20 267**	**–**	**49 463**
Off balance sheet	**1 462 862**	**59 065**	**–**	**1 521 927**

9. Net loans and advances (continued)

For the comparatives, the credit quality of stage 1 gross loans and advances was rated R26.2 billion low risk, R13.9 billion medium risk and R1.5 billion high risk. The credit quality of stage 2 is reflected in the differentiation of exposure categories. The increased ECL coverage ratios reflect the financial impact of the increased risk. Stage 2 was rated as R1.2 billion low risk, R1.3 billion medium risk and R2.4 billion high risk.

R'000	Stage 1	Stage 2	Stage 3	Total
Analysis of gross loans and advances – Business banking other				
2020				
Balance at acquisition date	4 801 948	–	212 887	5 014 835
Net loan sales	15 067 964	55 498	8 560	15 132 022
Income accrued for the year[1]	174 936	6 517	9 499	190 952
Transfers				–
Stage 1 to stage 2	(186 187)	186 187		–
Stage 1 to stage 3	(108 692)	–	108 692	–
Stage 2 to stage 3	–	(13 204)	13 204	–
Stage 3 to stage 2	–	686	(686)	–
Stage 3 to stage 1	850	–	(850)	–
Stage 2 to stage 1	1 094	(1 094)	–	–
Repayments	(15 267 250)	(49 270)	(31 207)	(15 347 727)
Write-offs and modifications			(51 379)	(51 379)
Balance at 29 February 2020	4 484 663	185 320	268 720	4 938 703
Analysis of gross loans and advances – Business banking mortgage loans				
2020				
Balance at acquisition date	5 102 518	–	290 400	5 392 918
Net loan sales	503 467	3 766	1 949	509 182
Income accrued for the year[1]	150 418	8 590	10 129	169 137
Transfers				–
Stage 1 to stage 2	(271 065)	271 065	–	–
Stage 1 to stage 3	(26 576)	–	26 576	–
Stage 2 to stage 3	–	(4 483)	4 483	–
Stage 3 to stage 2	–	–	–	–
Stage 3 to stage 1	–	–	–	–
Stage 2 to stage 1	2 704	(2 704)	–	–
Repayments	(630 827)	(12 054)	(7 399)	(650 280)
Write-offs and modifications	–	–	(14 316)	(14 316)
Balance at 29 February 2020	4 830 639	264 180	311 822	5 406 641

[1] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.*

R'000	Stage 1	Stage 2	Stage 3	Total
Analysis of gross loans and advances – Retail banking				
2020				
Balance 1 March 2019[3]	41 582 114	4 851 164	9 456 654	55 889 932
Net loan sales[1]	40 354 563	(893 798)	(344 270)	39 116 495
New loan sales[1]	54 146 551	–	–	54 146 551
Loans derecognised (other than write off)[1]	(13 791 988)	(893 798)	(344 270)	(15 030 056)
Income accrued for the year[2]	14 615 190	1 015 799	2 736 508	18 367 497
Transfers				–
Stage 1 to stage 2	(5 343 277)	5 343 277		–
Stage 1 to stage 3	(7 844 933)		7 844 933	–
Stage 2 to stage 3		(1 475 015)	1 475 015	–
Stage 3 to stage 2		375 555	(375 555)	–
Stage 3 to stage 1	795 092		(795 092)	–
Stage 2 to stage 1	1 551 011	(1 551 011)		–
Repayments	(37 397 429)	(2 047 375)	(3 387 029)	(42 831 833)
Write-offs and modifications	(2 573)	(1 016)	(5 102 108)	(5 105 697)
Balance at 29 February 2020	48 309 758	5 617 580	11 509 056	65 436 394

R'000	Stage 1	Stage 2	Stage 3	Expected recoveries	Total
Analysis of gross loans and advances – Retail banking					
2019					
Balance 1 March 2018	37 152 772	5 404 296	4 167 114	906 273	47 630 455
Net loan sales[1]	32 394 884	(1 020 656)	(405 881)	–	30 968 347
New loan sales[1]	43 711 610	–	–	–	43 711 610
Loans derecognised (other than write off)[1]	(11 316 726)	(1 0220 656)	(405 881)	–	(12 743 263)
Income accrued for the year[2] [3]	13 777 786	1 118 324	740 927	–	15 637 037
Transfers					
Stage 1 to stage 2	(5 278 256)	5 278 256	–	–	–
Stage 1 to stage 3	(6 799 033)	–	6 799 033	–	–
Stage 2 to stage 3	–	(1 746 142)	1 746 142	–	–
Stage 3 to stage 2	–	327 089	(327 089)	–	–
Stage 3 to stage 1	785 419	–	(785 419)	–	–
Stage 2 to stage 1	1 855 634	(1 855 634)	–	–	–
Repayments	(32 306 735)	(2 654 190)	(2 226 618)	(906 273)	(38 093 816)
Write-offs and modifications	(357)	(179)	(1 267 721)	–	(1 268 257)
Balance at 28 February 2019[3]	41 582 114	4 851 164	8 440 488	–	54 873 766

[1] *New loan sales include new loans issued on consolidating loans. The loans settled are disclosed separately.*
[2] *The income accrued for the year comprises interest received on loans, initiation fees, monthly service fees and gross insurance income.*
[3] *Refer to footnote 3 on page 191.*

9. Net loans and advances (continued)

R'000	2020 Amortised cost before modification	2020 Net modification loss	2019 Amortised cost before modification	2019 Net modification loss
Modifications on loans and advances				
Debt review				
Retail banking	**1 763 462**	**600 892**	1 797 483	668 263
Business banking	**6 070**	**–**	–	–
	1 769 532	**600 892**	1 797 483	668 263

Factors impacting and contributing to significant changes in the ECL during the period:

(i) Retail

- Gross loans and advances increased by 17.1%, ECL by 18.0% and net loans and advances by 16.8%.
- Stage 1 gross loans and advances increased by 16.2%, stage 2 by 15.8% and stage 3 by 21.7%.
- Credit impairments, comprising loans written off and the movement in ECL charged to the impairment line, increased by 14.3% to R5.6 billion.
- Net new loan of R39.0 billion (2019: R31 billion), up 25% on prior year, contributed R4.9 billion (2019: 4.2 billion) to the ECL at 29 February 2020.
- Overall ECL coverage increased by 0.2% to 20.5%. Coverage for stage 1 and stage 2 increased by 0.4% and 2.6% respectively, while coverage for stage 3 decreased by 4.7% to 73.1%. The decline in stage 3 coverage is mainly attributable to there being 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.
- Loans are written off when there is no reasonable expectation of recovery. This has resulted in loans remaining on book for a longer period, contributing to the increase in the stage 3 loan book of 21.7%. Loans in stage 3 that are more than 3 months in arrears, have a legal status or applied for debt review in the last 6 months, carry an average coverage of 85.0%, which is higher than other buckets.

(ii) Business

- Business comprise of 47% of Business other loans and advances and 53% of mortgage loans that were acquired from November 2019.
- Gross business loans and advances decreased by 0.6%, ECL increased by 18.3% and Net loans and advances decreased by 1.1%.
- Stage 1 gross loans and advances decreased by 5.9% while stage 3 increased by 15.3%.
- Credit impairments, comprising loans written off and the movement in ECL charged to the impairment line, amounted to R114 million.
- Net new loan of R16 million, contributed R10 million to the ECL at 29 February 2020.
- Overall ECL coverage increased by 0.5% to 3.0%. Coverage for stage 1 comprises 0.9%, stage 2 comprises 9.3% and stage 3 comprises 32.5%. Stage 3 coverage for Business other comprises 47.3% and Mortgage 19.7%.

R'000	Stage 1	Stage 2	Stage 3	Total
Analysis of provision for ECL – Business banking other				
2020				
Balance at acquisition date	80 010	–	127 371	207 381
Movement in the income statement				
New loan sales	8 936	155	28	9 119
Transfer from stage 1 to stage 2	(15 196)	21 641	–	6 445
Transfer from stage 1 to stage 3	(799)	–	37 496	36 697
Transfer from stage 2 to stage 3	–	(1 059)	3 042	1 983
Transfer from stage 2 to stage 1	6	(233)	–	(227)
Transfer from stage 3 to stage 1	2	–	(248)	(246)
Transfer from stage 3 to stage 2	–	7	(170)	(163)
Remain in same stage	9 172	6 300	46 110	61 582
Loans and advances settled in current year	(4 951)	(731)	(47 146)	(52 828)
Write-offs and modifications	–	–	(44 624)	(44 624)
Change in model assumptions and methodology	–	–	5 214	5 214
Balance at 29 February 2020	77 180	26 080	127 073	230 333

R'000	Stage 1	Stage 2	Stage 3	Total
Analysis of provision for ECL – Business banking mortgage loans				
2020				
Balance at acquisition date	12 737	–	46 627	59 364
Movement in the income statement				
New loan sales	531	42	–	573
Transfer from stage 1 to stage 2	(7 235)	9 879	–	2 644
Transfer from stage 1 to stage 3	(35)	–	3 428	3 393
Transfer from stage 2 to stage 3	–	(87)	360	273
Transfer from stage 2 to stage 1	4	(48)	–	(44)
Transfer from stage 3 to stage 1	–	–	–	–
Transfer from stage 3 to stage 2	–	–	–	–
Remain in same stage	2 299	6 066	17 582	25 947
Loans and advances settled in current year	(434)	(73)	(1 203)	(1 710)
Write-offs and modifications	–	–	(13 936)	(13 936)
Change in model assumptions and methodology	–	–	8 631	8 631
Balance at 29 February 2020	7 867	15 779	61 489	85 135

9. Net loans and advances (continued)

R'000	Stage 1	Stage 2	Stage 3	Total
Analysis of provision for ECL – Retail banking				
2020				
Balance at 1 March 2019[1]	2 671 379	1 352 508	7 356 740	11 380 627
Movement in the income statement				–
New loan sales	4 853 434	–	–	4 853 434
Transfer from stage 1 to stage 2	(880 885)	1 149 243		268 358
Transfer from stage 1 to stage 3	(2 269 058)	–	4 571 629	2 302 571
Transfer from stage 2 to stage 3	–	(385 263)	788 516	403 253
Transfer from stage 2 to stage 1	60 559	(317 856)	–	(257 297)
Transfer from stage 3 to stage 1	44 817	–	(312 672)	(267 855)
Transfer from stage 3 to stage 2	–	77 436	(187 078)	(109 642)
Remain in same stage	(362 400)	(82 901)	486 370	41 069
Loans and advances settled in current year	(1 016 499)	(316 617)	(668 568)	(2 001 684)
Write-offs and modifications	(216 139)	(146 741)	(3 358 978)	(3 721 858)
Change in model assumptions and methodology	419 182	381 614	(267 061)	533 735
Balance at 29 February 2020	3 304 390	1 711 423	8 408 898	13 424 711

2019				
Balance at 1 March 2018	2 674 424	1 591 080	2 449 260	6 714 764
Movement in the income statement				
New loan sales	1 643 069	780 057	1 780 375	4 203 502
Transfer from stage 1 to stage 2	(139 488)	349 039	–	209 552
Transfer stage 1 to stage 3	(360 255)	–	2 622 389	2 262 134
Transfer stage 2 to stage 3	–	(493 610)	1 052 741	559 131
Transfer stage 2 to stage 1	72 252	(383 034)	–	(315 782)
Transfer stage 3 to stage 1	41 222	–	(302 060)	(260 838)
Transfer stage 3 to stage 2	–	63 399	(143 947)	(80 548)
Remains in same stage	(507 050)	(93 6047	394 511	(206 146)
Loans and advances settled in current year	(915 565)	(408 951)	(346 073)	(1 670 589)
Write-offs and modifications	(26 208)	(147 461)	(476 342)	(650 010)
Change in model assumption and methodology	188 977	100 595	325 885	615 458
Balance at 28 February 2019[1]	2 671 379	1 352 508	7 356 740	11 380 627

[1] *Refer to footnote 3 on page 191.*

R'000	GROUP 2020	2019
Detail analysis of leases (rental assets) included in business other loans		
Gross investment in lease receivables		
Less than 1 year	536 670	–
1 to 2 years	467 046	–
2 to 3 years	352 707	–
3 to 4 years	212 138	–
4 to 5 years	76 662	–
More than 5 years	66	–
Gross investment in lease receivables	1 645 289	–
Unearned finance income	(317 673)	–
Net investment in lease receivables	1 327 616	–
Net lease receivable		
Less than 1 year	459 824	–
1 to 5 years	867 738	–
More than 5 years	54	–
Net investment in lease receivables	1 327 616	–
Less: ECL	(71 513)	–
Net lease receivable	1 256 103	–

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. The instalment sale agreements are granted to finance motor vehicles and equipment of our business banking clients. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R71.5 million. Rental assets to the value of R360 million serve as security for the asset-backed notes. Refer to note 19.

9. Net loans and advances (continued)

Analysis of the amounts recognised in the income statement for rental finance

	GROUP	
	2020	2019
Selling profit or loss	2 657	–
Finance income on the net investment in leases	59 673	–
Income relating to variable lease payments not included in the measurement of the net investment in leases	6 577	–

Significant changes in the carrying amount of the net investment in finance leases for the year

New rental contracts amounted to R197.1 million, while the cost of early settled deals was R21.2 million. The capital portion of bad debts written off was R10.4 million.

Collateral held as security and other credit enhancements relating to credit-impaired financial assets – 2020

R'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Business other	268 720	(127 073)	141 647	155 199
Mortgage loans	311 822	(61 489)	250 333	299 993
	580 542	(188 562)	391 980	455 192

Fair value of collateral and other credit enhancements is determined by referencing the realisable value of security held.

All the business banking clients are accorded a risk grading. The risk grading is dependent on the client's creditworthiness and standing with the group, and is subject to ongoing assessment of the client's financial standing and the acceptability of their dealings with the group, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value, nil for unlisted shares
Pledge and cession of assets (specific and general)	Variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	100% of asset value
Vacant land	50% of professional valuation
Residential properties	80% of professional valuation (certain segments up to 100%)
Commercial and industrial properties	70% of professional valuation
Catering, industrial and office equipment	Variable depending on asset type and depreciated value
Trucks	Variable depending on asset type and depreciated value
Earthmoving equipment	Variable depending on asset type and depreciated value
Motor vehicles	Variable depending on asset type and depreciated value
General notarial bond	Variable depending on asset type and depreciated value
Special notarial bond	Variable depending on asset type and depreciated value

At the end of the financial year ended 29 February 2020, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R5.3 million.

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

10. Other receivables

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Financial receivables	1 807 324	1 416 026	1 389 332	1 416 026
Deposits	34 363	33 248	34 363	33 248
SARB settlement balance	817 689	991 691	641 044	991 691
Other receivables[2]	682 023	345 334	440 676	345 334
Funeral income receivable	273 249	45 753	273 249	45 753
Non-financial receivables	239 261	223 402	210 669	223 402
Prepayments[1]	239 261	223 402	210 669	223 402
Total other receivables	2 046 585	1 639 428	1 600 001	1 639 428
Current	2 009 327	1 619 106	1 562 743	1 619 106
Non-current	37 258	20 322	37 258	20 322
Maximum exposure to credit risk	2 046 585	1 639 428	1 600 001	1 639 428

(1) *Prepayments relate to information technology and business development expenses.*
(2) *Other receivables include VAT receivable and sundry debtors.*

11. Net insurance receivable[1]

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Opening balance	236 391	245 204	236 391	245 204
Net insurance income[3]	980 838	794 977	980 838	794 977
Interest on investment	21 895	25 275	21 895	25 275
Distribution paid to the bank	(1 021 701)	(829 065)	(1 021 701)	(829 065)
	217 423	236 391	217 423	236 391
Current	217 423	236 391	217 423	236 391
Net insurance income				
Residual from cell captive business after reinsurance[2]	980 838	794 977	980 838	794 977
Net insurance income	980 838	794 977	980 838	794 977

(1) *The amount receivable from the insurer represents the right to the residual interest in the cell captive reduced by distributions declared by the cell captive insurer on the specific class of preference shares held by the group.*
(2) *The residual from the cell captive business after insurance represents net results after premiums received, claims paid and reinsurance paid.*
(3) *Insurance profit is received from the cell captive as a dividend after tax. The tax expense on insurance profit is included in net insurance income.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

12. Financial assets – equity instruments at FVOCI

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Unlisted securities				
Balance at the beginning of the year[(1)]	100 000	100 000	100 000	100 000
Acquisition of subsidiary[(2)]	8 078	–	–	–
Fair value adjustment	(6 939)	–	–	–
Total financial assets – equity instruments at FVOCI	101 139	100 000	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.*
[(2)] *The subsidiary held an investment at acquisition that was subsequently revalued. The register containing the details of the investments is available for inspection at the registered office of the company.*

13. Group loans receivable

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Loan to share incentive trust	–	4 716	–	4 716
Loan to fellow subsidiary[(1)]	–	313 284	–	313 284
Loan to other group company[(2)]	–	–	200 000	–
Loan to holding company[(1)]	15 257	13 465	15 257	13 465
Total group loans receivable	15 257	331 465	215 257	331 465
Current	15 257	331 465	215 257	331 465
Non-current	–	–	–	–

[(1)] *The loans to a fellow subsidiary and the holding company are repayable on demand, bear interest as agreed by the parties from time to time and no fixed repayment terms have been set.*
[(2)] *The loan to other group company bears interest and is repayable on demand and no fixed repayment terms have been set.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

14. Interest in subsidiaries and joint ventures

Interest in subsidiaries				
Investment in unlisted subsidiaries at cost	–	–	3 555 772	–
Total interest in subsidiaries	–	–	3 555 772	–

Subsidiaries	Domicile	Holding	Nature of business
Mercantile Bank Limited	South Africa	100% (2019: 0%)	Banking
Mercantile Rental Finance Proprietary Limited	South Africa	100%	Rental finance
Mercantile Payment Solutions Proprietary Limited (joint venture)	South Africa	50%	Payment solutions

Joint ventures	Domicile	Holding	Nature of business
Imvelo Ventures Proprietary Limited	South Africa	17.5% (2019: 0%)	BEE Investment company

Interest in joint venture				
Imvelo Ventures				
Opening balance	–	–	–	–
Interest acquired	107 202	–	107 202	–
Share of profit/(loss)	1 338	–	–	–
Total interest in Imvelo Ventures	108 540	–	107 202	–
Imvelo Ventures Proprietary Limited				
Reconciliation to carrying amounts				
Non-current assets	11 694	–	11 694	–
Current assets	110 727	–	110 727	–
Non-current liabilities	–	–	–	–
Current liabilities	(1 106)	–	(1 106)	–
Net assets at 100%	121 315	–	121 315	
The group's share of net assets at acquisition	21 230	–	21 230	–
Difference in initial cost versus share of net assets acquired	85 972	–	85 972	–
Cost of investment in Imvelo Ventures	107 202	–	107 202	–
Cumulative share of profit	1 338	–	–	–
Carrying amount of investment in Imvelo Ventures	108 540	–	107 202	–

15. Right-of-use asset

	GROUP	
R'000	Premises	Total
2020		
Adoption of IFRS 16	2 650 865	2 650 865
Additions	233 691	233 691
Terminations and modifications	(18 364)	(18 364)
Acquisition of subsidiary	14 339	14 339
Depreciation charge	(420 506)	(420 506)
Net book value at the end of the year	2 460 025	2 460 025
Cost	2 880 531	2 880 531
Accumulated depreciation	(420 506)	(420 506)
Net book value at the end of the year	2 460 025	2 460 025
Current	435 985	435 985
Non-current	2 024 040	2 024 040
Future cash flows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	145 699	145 699

	COMPANY	
R'000	Premises	Total
2020		
Adoption of IFRS 16	2 650 865	2 650 865
Additions	232 892	232 892
Terminations and modifications	(18 364)	(18 364)
Depreciation charge	(417 461)	(417 461)
Net book value at the end of the year	2 447 932	2 447 932
Cost	2 865 393	2 865 393
Accumulated depreciation	(417 461)	(417 461)
Net book value at the end of the year	2 447 932	2 447 932
Current	435 985	435 985
Non-current	2 011 947	2 011 947
Future cash flows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	145 699	145 699

R'000	Assets under construction buildings[1]	Land and buildings	Computer equipment	Office equipment and vehicles	Total
			GROUP		

16. Property and equipment

2020

R'000	Assets under construction buildings[1]	Land and buildings	Computer equipment	Office equipment and vehicles	Total
Opening net book value	–	–	1 110 877	753 020	1 863 897
Additions[1]	688 288	91 674	383 515	264 937	1 428 414
Acquisition of subsidiary	–	205 939	23 820	9 819	239 578
Disposals	–	–	(6 581)	(53 196)	(59 777)
Depreciation charge	–	(3 839)	(263 730)	(244 380)	(511 949)
Net book value at the end of the year	688 288	293 774	1 247 901	730 200	2 960 163
Cost	688 288	297 613	2 596 546	1 707 572	5 378 638
Accumulated depreciation	–	(3 839)	(1 348 645)	(977 372)	(2 418 475)
Net book value at the end of the year	688 288	293 774	1 247 901	730 200	2 960 163
Non-current	688 288	293 774	1 247 901	730 200	2 960 163

2019

R'000	Assets under construction buildings[1]	Land and buildings	Computer equipment	Office equipment and vehicles	Total
Opening net book value	–	–	862 741	745 843	1 608 584
Additions	–	–	471 552	238 559	710 111
Disposals	–	–	(10 065)	(8 228)	(18 293)
Depreciation charge	–	–	(213 351)	(223 154)	(436 505)
Net book value at the end of the year	–	–	1 110 877	753 020	1 863 897
Cost	–	–	2 246 374	1 428 703	3 675 077
Accumulated depreciation	–	–	(1 135 497)	(675 683)	(1 811 180)
Net book value at the end of the year	–	–	1 110 877	753 020	1 863 897
Non-current	–	–	1 110 877	753 020	1 863 897

[1] *Assets under construction relate to the construction of our new head office. Building is expected to be completed early in the 2021 financial year. Refer to note 40 for capital commitments. The assets under construction were purchased from Capitec Bank Properties Proprietary Limited. The variance to additions disclosed in the statements of cash flow comprises the portion settled through loans from fellow subsidiaries.*

R'000	Assets under construction buildings[1]	Land and buildings	Computer equipment	Office equipment and vehicles	Total
			COMPANY		

16. Property and equipment (continued)

R'000	Assets under construction buildings[1]	Land and buildings	Computer equipment	Office equipment and vehicles	Total
2020					
Opening net book value	–	–	1 110 877	753 020	1 863 897
Additions[1]	688 288	91 674	382 801	264 739	1 427 502
Disposals	–	–	(6 581)	(53 194)	(59 775)
Depreciation charge	–	–	(259 611)	(243 061)	(502 672)
Net book value at the end of the year	688 288	91 674	1 227 486	721 504	2 728 952
Cost	688 288	91 674	2 572 011	1 697 557	5 049 530
Accumulated depreciation	–	–	(1 344 525)	(976 053)	(2 320 578)
Net book value at the end of the year	688 288	91 674	1 227 486	721 504	2 728 952
Non-current	688 288	91 674	1 227 486	721 504	2 728 952
2019					
Opening net book value	–	–	862 741	745 843	1 608 584
Additions	–	–	471 552	238 559	710 111
Disposals	–	–	(10 065)	(8 228)	(18 293)
Depreciation charge	–	–	(213 351)	(223 154)	(436 505)
Net book value at the end of the year	–	–	1 110 877	753 020	1 863 897
Cost	–	–	2 246 374	1 428 703	3 675 077
Accumulated depreciation	–	–	(1 135 497)	(675 683)	(1 811 180)
Net book value at the end of the year	–	–	1 110 877	753 020	1 863 897
Non-current	–	–	1 110 877	753 020	1 863 897

[1] *Assets under construction relate to the construction of our new head office. Building is expected to be completed early in the 2021 financial year. Refer to note 40 for capital commitments. The assets under construction were purchased from Capitec Bank Properties Proprietary Limited. The variance to additions disclosed in the statements of cash flow comprises the portion settled through loans from fellow subsidiaries.*

R'000	Computer software[1]	Internally generated intangible assets[2]	Core deposit intangible[3]	Client relationships[3]	Goodwill[3]	Total
			GROUP			

17. Intangible assets

R'000	Computer software[1]	Internally generated intangible assets[2]	Core deposit intangible[3]	Client relationships[3]	Goodwill[3]	Total
2020						
Opening net book value	299 559	16 724	–	–	–	316 283
Additions	231 056	32 203	–	–	–	263 259
Acquisition of subsidiary	96 836	–	80 780	17 721	794 487	989 824
Disposals	(450)	–	–	–	–	(450)
Amortisation charge	(190 424)	–	(3 847)	(844)	–	(195 115)
Net book value at the end of the year	436 577	48 927	76 933	16 877	794 487	1 373 801
Cost	972 073	48 927	80 780	17 721	794 487	2 266 736
Accumulated amortisation	(535 496)	–	(3 847)	(844)	–	(892 935)
Net book value at the end of the year	436 577	48 927	76 933	16 877	794 487	1 373 801
2019						
Opening net book value	283 011	–	–	–	–	283 011
Additions	213 403	16 724	–	–	–	230 127
Disposals	(474)	–	–	–	–	(474)
Amortisation charge	(196 381)	–	–	–	–	(196 381)
Net book value at the end of the year	299 559	16 724	–	–	–	316 283
Cost	776 204	16 724	–	–	–	792 928
Accumulated amortisation	(476 645)	–	–	–	–	(476 645)
Net book value at the end of the year	299 559	16 724	–	–	–	316 283

(1) *Computer software comprises primarily main banking infrastructure applications, which are purchased from our respective vendors.*
(2) *Internally generated intangible assets comprise assets under construction relating to SAP software, expected to be completed in 2021. Refer to note 40 for capital commitments.*
(3) *Goodwill and other intangibles relating to the acquisition of Mercantile Bank Limited. Refer to note 4 and note 3.1.3.*

R'000	Computer software[1]	COMPANY Internally generated intangible assets[2]	Total

17. Intangible assets (continued)

	Computer software[1]	Internally generated intangible assets[2]	Total
2020			
Opening net book value	**299 559**	**16 724**	**316 283**
Additions	**225 232**	**32 203**	**257 435**
Disposals	**(450)**	**–**	**(450)**
Amortisation charge	**(171 294)**	**–**	**(171 294)**
Net book value at the end of the year	**353 047**	**48 927**	**401 974**
Cost	**869 413**	**48 927**	**918 340**
Accumulated amortisation	**(516 366)**	**–**	**(516 366)**
Net book value at the end of the year	**353 047**	**48 927**	**401 974**
2019			
Opening net book value	283 011	–	283 011
Additions	213 403	16 724	230 127
Disposals	(474)	–	(474)
Amortisation charge	(196 381)	–	(196 381)
Net book value at the end of the year	299 559	16 724	316 283
Cost	776 204	16 724	792 928
Accumulated amortisation	(476 645)	–	(476 645)
Net book value at the end of the year	299 559	16 724	316 283

(1) *Computer software comprises primarily main banking infrastructure applications, which are purchased from our respective vendors.*
(2) *Internally generated intangible assets comprise assets under construction relating to SAP software, expected to be completed in 2021. Refer to note 40 for capital commitments.*

R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
				GROUP			

18. Deferred income tax asset and liabilities

18.1 Deferred income tax asset

R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2020							
Balance at the beginning of the year	**1 669 229**	**3 629**	**(64 407)**	**–**	**–**	**(24 869)**	**1 583 582**
Income statement charge	**313 612**	**–**	**27 806**	**(93 508)**	**1 313**	**(607)**	**248 616**
Transfer of deferred tax IFRS 16 transition date	**(41 277)**	**–**	**–**	**41 277**	**–**	**–**	**–**
Acquisition of subsidiary	**47 108**	**–**	**(4 147)**	**–**	**(27 580)**	**–**	**15 381**
Debited to equity through other comprehensive income	**1 382**	**4 572**	**–**	**–**	**–**	**–**	**5 954**
Balance at the end of the year[1]	**1 990 054**	**8 201**	**(40 748)**	**(52 231)**	**(26 267)**	**(25 476)**	**1 853 533**
2019							
Balance at the beginning of the year	471 610	10 298	(45 090)	–	–	(19 882)	416 936
IFRS 9 transitional adjustment	770 490	–	–	–	–	–	770 490
Income statement charge	427 129	–	(19 317)	–	–	(4 987)	402 825
Debited to equity through other comprehensive income	–	(6 669)	–	–	–	–	(6 669)
Balance at the end of the year[1]	1 669 229	3 629	(64 407)	–	–	(24 869)	1 583 582
Estimated to be recovered in 1 year							**1 707 753**
Estimated to be recovered after 1 year							**145 780**
							1 853 533

[1] Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2019: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.

18. Deferred income tax asset and liabilities (continued)

18.1 Deferred income tax asset (continued)

COMPANY

R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Prepayments	Total
2020						
Balance at the beginning of the year	1 669 229	3 629	(64 407)	–	(24 869)	1 583 582
Income statement charge	335 911	–	(862)	(93 508)	(607)	240 934
Transfer of deferred tax IFRS 16 transition date	(41 277)	–	–	41 277	–	–
Debited to equity through other comprehensive income	–	4 572	–	–	–	4 572
Balance at the end of the year[1]	1 963 863	8 201	(65 269)	(52 231)	(25 476)	1 829 088
Estimated to be recovered in 1 year						1 683 308
Estimated to be recovered after 1 year						145 780
						1 829 088
2019				–		
Balance at the beginning of the year	471 610	10 298	(45 090)	–	(19 882)	416 936
IFRS 9 transitional adjustment	770 490	–	–	–	–	770 490
Income statement charge	427 129	–	(19 317)	–	(4 987)	402 825
Debited to equity through other comprehensive income	–	(6 669)	–	–	–	(6 669)
Balance at the end of the year[1]	1 669 229	3 629	(64 407)	–	(24 869)	1 583 582

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2019: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.*

18.2 Deferred income tax liabilities

GROUP

R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2020							
Balance at the beginning of the year	–	–	–	–	–	–	–
Income statement charge	(4 118)	–	4 971	–	–	–	853
Acquisition of subsidiary	(3 862)	–	75 995	–	–		72 133
Balance at the end of the year[1]	(7 980)	–	80 966	–	–	–	72 986
2019				–			
Balance at the beginning of the year	–	–	–	–		–	–
Balance at the end of the year[1]	–	–	–	–		–	–
Estimated to be recovered in 1 year							–
Estimated to be recovered after 1 year							72 986
							72 986

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2019: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

19. Deposits and wholesale funding

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Deposits				
By maturity				
Within 1 month	65 943 829	46 470 518	56 764 816	46 470 518
1 to 3 months	4 447 667	2 719 456	3 352 104	2 719 456
3 months to 1 year	14 751 820	10 641 494	14 434 451	10 641 494
1 to 2 years	7 555 970	4 624 199	6 001 691	4 624 199
2 to 5 years	6 949 806	6 909 618	6 943 853	6 909 618
More than 5 years	15	–	15	–
Deposits	99 649 107	71 365 285	87 496 930	71 365 285
Wholesale funding				
By maturity				
Within 1 month	48 949	69 066	41 566	69 066
1 to 3 months	992 031	303 124	992 031	303 124
3 months to 1 year	844 071	1 948 044	604 071	1 948 044
1 to 2 years	1 130 495	1 559 473	1 020 495	1 559 473
2 to 5 years	678 123	1 147 362	678 123	1 147 362
More than 5 years	–	51 259	–	51 259
Bonds	3 693 669	5 078 328	3 336 286	5 078 328
By nature				
Deposits(3)				
Call accounts	56 037 341	45 140 650	55 160 413	45 140 650
Current accounts(3)	6 544 670	–	–	–
Term and notice deposits(3)	3 652 977	–	–	–
Foreign currency deposits(3)	883 524	–	–	–
Fixed deposits	32 530 595	26 224 635	32 336 517	26 224 635
	99 649 107	71 365 285	87 496 930	71 365 285
Wholesale funding(2)				
Asset – backed notes	357 383	–	–	–
Subordinated – unlisted bonds	–	508 640	–	508 640
Subordinated debt – listed bonds(1)	–	1 336 980	–	1 336 980
Listed senior bonds(1)	2 989 725	2 737 447	2 989 725	2 737 447
Unlisted negotiable instruments	246 905	396 490	246 905	396 490
Other wholesale funding	99 656	98 771	99 656	98 771
	3 693 669	5 078 328	3 336 286	5 078 328
Total deposits and wholesale funding	103 342 776	76 443 613	90 833 216	76 443 613

19. Deposits and wholesale funding (continued)

Description	Nominal amount	Issue date	Term	Rate
2020				
Listed senior bonds				
Senior debt – listed bonds – fixed rate[1]	R450 million	2013/05/06	7 year	R208 government bond plus 2.50%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	2015/11/02	5 year	3 month JIBAR plus 2.60%
Senior debt – listed bonds – fixed rate[1]	R500 million	2016/05/06	5 year	R208 government bond plus 2.40%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	2017/05/12	3 year	3 month JIBAR plus 2.00%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	2018/05/21	3 year	3 month JIBAR plus 1.53%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	2019/04/30	5 year	3 month JIBAR plus 1.50%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R6 million	2017/03/09	3 year	3 year mid swap plus 1.70%
Negotiable certificate of deposit – fixed rate	R46 million	2017/06/08	5 year	5 year mid swap plus 2.40%
Floating rate note	R100 million[2]	2017/11/24	3 year	3 month JIBAR plus 1.60%
Negotiable certificate of deposit – fixed rate	R33 million	2018/01/22	5 year	5 year mid swap plus 2.00%
Call deposit – floating rate	R28 million	2018/01/26	Call	Linked to repo
Negotiable certificate of deposit – fixed rate	R12 million	2018/03/09	3 year	3 year mid swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R41 million	2018/04/10	5 year	5 year mid swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R5 million	2018/04/10	3 year	3 year mid swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R4 million	2018/04/10	1 year	1 year mid swap plus 1.00%
Asset-backed notes[4]				
Secured, compulsorily redeemable	R240 million	2017/06/06	3 years	3 month JIBAR
Secured, compulsorily redeemable	R110 million	2018/12/06	3 years	3 month JIBAR
Other wholesale funding				
Bi-lateral loan – fixed rate	R90 million	2004/12/01	20 years	Fixed rate of 11% NACM

[1] *Comprises notes listed on Capitec Bank's domestic medium-term note (DMTN) programme registered on the JSE's interest rate board.*
[2] *Wholesale funding issued at variable rates is hedged through interest rate swap agreements as set out in note 45. The nominal value of hedged funding totalled R2 100 million and consists of:*

Listed senior bonds	*R2 000 million*
Unlisted negotiable instruments	*R100 million*

[3] *Acquired additional deposits through the Mercantile business combination.*
[4] *Business banking instruments secured by rental assets. Refer to note 9 for details.*

Description	Nominal amount	Issue date	Term	Rate
2019				
Subordinated debt				
Subordinated debt – unlisted bonds – floating rate	R500 million[3]	2012/07/06	7 year	3 month JIBAR plus 4.75%
Subordinated debt – listed bonds – floating rate[2]	R400 million[3]	2012/08/23	7 year	3 month JIBAR plus 4.49%
Subordinated debt – listed bonds – fixed rate[2]	R350 million	2012/08/23	7 year	R204 government bond plus 4.60%
Subordinated debt – listed bonds – floating rate[2]	R572 million[3]	2012/12/14	7 year	3 month JIBAR plus 4.49%
Listed senior bonds				
Senior debt – unlisted bonds – fixed rate	R450 million	2013/05/06	7 year	R208 government bond plus 2.50%
Senior debt – listed bonds – floating rate[1]	R500 million[3]	2015/11/02	5 year	3 month JIBAR plus 2.60%
Senior debt – listed bonds – fixed rate[1]	R500 million	2016/05/06	5 year	R208 government bond plus 2.40%
Senior debt – listed bonds – floating rate[1]	R250 million[3]	2016/05/06	3 year	3 month JIBAR plus 2.20%
Senior debt – unlisted bonds – floating rate	R500 million[3]	2017/05/12	3 year	3 month JIBAR plus 2.00%
Senior debt – listed bonds – floating rate[1]	R500 million[3]	2018/05/21	3 year	3 month JIBAR plus 1.53%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R100 million	2016/08/08	3 year	3 year mid swap plus 1.60%
Negotiable certificate of deposit – fixed rate	R21 million	2017/02/13	3 year	3 year mid swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R6 million	2017/03/09	3 year	3 year mid swap plus 1.70%
Negotiable certificate of deposit – fixed rate	R46 million	2017/06/08	5 year	5 year mid swap plus 2.40%
Floating rate note	R100 million[2]	2017/11/24	3 year	3 month JIBAR plus 1.60%
Negotiable certificate of deposit – fixed rate	R33 million	2018/01/22	5 year	5 year mid swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R12 million	2018/03/09	3 year	3 year mid swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R22 million	2018/03/09	1 year	1 year mid swap plus 1.00%
Negotiable certificate of deposit – fixed rate	R41 million	2018/04/10	5 year	5 year mid swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R5 million	2018/04/10	3 year	3 year mid swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R4 million	2018/04/10	1 year	1 year mid swap plus 1.00%
Other wholesale funding				
Bi-lateral loan – fixed rate	R90 million	2004/01/12	20 years	Fixed rate of 11% NACM

(1) All deposits and bonds are unsecured.
(2) Comprises notes listed on Capitec Bank's 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 note 45. The nominal value of hedged funding totalled R3 322 million and consists of:

Subordinated debt – unlisted bonds	*R500 million*
Subordinated debt – listed bonds	*R972 million*
Listed senior bonds	*R1 750 million*
Unlisted negotiable instruments	*R100 million*

19. Deposits and wholesale funding (continued)

Reconciliation of movements in cash flows arising from financing activities

R'000	Subordi-nated debt – unlisted	Subordi-nated debt – listed	Senior listed bonds	Asset-backed notes	Secured debt	Other wholesale funding	Total
				GROUP			
2020							
Opening balance at 1 March 2019	508 640	1 336 980	2 737 447	–	–	–	4 583 067
Acquisition of subsidiary	–	–	–	354 812	141 045	749 113	1 244 970
Issue of institutional bonds and other funding.	–	–	500 000[1]	–	–	–	500 000
Redemption of institutional bonds and other funding.	(500 000)[1]	(1 322 000)[1]	(250 000)[1]	–	(141 045)	(749 113)	(2 962 158)
Interest expense accrued	21 072	95 319	282 094	2 571	–	–	401 056
Swap interest accrued	(34)	(1 990)	(13 288)	–	–	–	(15 312)
Interest paid	(29 678)	(108 309)	(266 528)	–	–	–	(404 515)
Balance at 29 February 2020	–	–	2 989 725	357 383	–	–	3 347 108
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)							346 561
Total wholesale funding							3 693 669

[1] *Company cash flow movements.*

GROUP AND COMPANY R'000	Subordi-nated debt – unlisted	Subordi-nated debt – listed	Senior listed bonds	Total
2019				
Opening balance at 1 March 2018	552 889	1 928 971	2 738 062	5 219 922
Instruments issued	–	–	500 000	500 000
Instruments redeemed	(44 000)	(575 000)	500 000	(1 119 000)
Interest expense accrued	62 887	203 531	266 310	532 728
Swap interest accrued	(730)	(3 368)	(13 054)	(17 152)
Interest paid	(62 406)	(217 154)	(253 871)	(533 431)
Balance at 28 February 2019	508 640	1 336 980	2 737 447	4 583 067
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)				495 261
Total wholesale funding				5 078 328

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
20. Other liabilities				
Trade payables	1 302 573	1 035 795	943 155	1 035 795
Dividends payable	3 386	3 786	3 386	3 786
Accruals	898 164	847 977	882 358	847 977
Share option and share appreciation rights accrual (notes 43 and 44)	427 995	655 670	427 511	655 670
Total other liabilities	2 632 118	2 543 228	2 256 410	2 543 228
Current	2 288 831	1 998 594	1 913 123	1 998 594
Non-current	343 287	544 634	343 287	544 634

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

21. Lease liability

Lease liability	2 794 847	–	2 781 889	–
	2 794 847	–	2 781 889	–
Lease liability				
Maturity analysis – contractual undiscounted cash flows				
Less than 1 year	535 393	–	527 608	–
1 to 5 years	2 054 667	–	2 048 428	–
More than 5 years	1 537 962	–	1 537 962	–
Total undiscounted lease liabilities at 29 February 2020	4 128 022	–	4 113 998	–
Lease liabilities included in the statement of financial position at 29 February 2020				
Current	283 731	–	276 137	–
Non-current	2 511 116	–	2 505 751	–
Amounts recognised in profit or loss				
Interest on lease liabilities	255 583	–	255 201	–
Expense relating to short-term leases	5 894	–	5 289	–
Amounts recognised in the statement of cash flows				
Total cash flow for leases[1]	501 832	–	498 579	–

Premises leases

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities. The leases for its branches typically run for a period of 5 years. The majority of the leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. The group include extension options when determining the lease term as branches are a strategic part of the business.

Other leases

The leases are short term and/or leases of low-value items. The group has elected not to recognise right-of-use assets and lease liabilities for these leases.

[1] *Refer to note 37.2 for a breakdown of the cash flows from operating and financing activities.*

R'000	GROUP 2020	2019

22. Post-retirement medical benefits – Mercantile

Mercantile Bank operates a post-retirement medical scheme. Independent actuaries value this scheme annually. It is the actuary's opinion that the plan is in a sound financial position. The scheme was last valued at 29 February 2020.

The amounts recognised in the statement of financial position as part of provisions are as follows (refer to note 23):

Present value of total service liabilities	17 234	–
Liability in the statement of financial position	**17 234**	**–**
The amounts recognised in the statements of comprehensive income are as follows:		
Net interest cost	96	–
Employees cost	(487)	–
Current service cost	6	–
Employer benefits payments	(493)	–
Total included in comprehensive income	**(391)**	**–**
The amounts recognised in the statements of comprehensive income are as follows:		
Remeasurement of defined benefit obligation	(567)	–
Total included in comprehensive income	**(567)**	**–**
Reconciliation of the movement in the present value of total service liabilities:		
Balance as at date of acquisition	18 192	–
Current service cost	6	–
Interest costs	96	–
Remeasurement of defined benefit obligation	(567)	–
Employer benefits payments	(493)	–
Balance as at the end of the year	**17 234**	**–**
The principal actuarial assumptions used were as follows:		
Discount rate (%)	9.1%	–
Rate of medical inflation (%)	6.6%	–
Salary inflation (%)	6.1%	–

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in the amount of R1.6 million or a decrease of R1.4 million, respectively.

R'000	Performance incentive scheme[1]	GROUP Post-retirement medical benefits	Total

23. Provisions

R'000	Performance incentive scheme[1]	Post-retirement medical benefits	Total
2020			
Balance at the beginning of the year	**91 005**	**–**	**91 005**
Acquisition of subsidiary[2]	**86 278**	**18 192**	**104 470**
Addition	**82 265**	**102**	**82 367**
Used during the year	**(105 572)**	**(1 060)**	**(106 632)**
Balance at the end of the year	**153 976**	**17 234**	**171 210**
2019			
Balance at the beginning of the year	66 835	–	66 835
Addition	67 741	–	67 741
Used during the year	(43 571)	–	(43 571)
Balance at the end of the year	91 005	–	91 005

	2020	2019
Current	**61 409**	–
Non-current	**109 801**	91 005

R'000	Performance incentive scheme[1]	COMPANY Post-retirement medical benefits	Total
2020			
Balance at the beginning of the year	**91 005**	**–**	**91 005**
Addition	**73 528**	**–**	**73 528**
Used during the year	**(54 732)**	**–**	**(54 732)**
Balance at the end of the year	**109 801**	**–**	**109 801**
2019			
Balance at the beginning of the year	66 835	–	66 835
Addition	67 741	–	67 741
Used during the year	(43 571)	–	(43 571)
Balance at the end of the year	91 005	–	91 005

	2020	2019
Non-current	**109 801**	91 005

[1] Senior management of Capitec Bank 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 2022 and 2023 financial years are included in provisions. The bonus to be paid in the 2021 financial year is included in accruals.

[2] The business banking incentive scheme aims to reward outstanding performance and to drive group results. Measurement criteria are aligned to strategic objectives. The group's performance determines the size of the bonus pool, but individual performance determines the incentive percentage of total gross remuneration that is awarded within the determined range.

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

24. Group loans payable

Loan owing to fellow group subsidiary[2]	65 821	–	2 178 434	–
Loan owing to fellow group trust[1]	4 430	–	4 430	–
	70 251	–	2 182 864	–
Current	70 251	–	2 182 864	–

[1] *The loan is interest-free and has no fixed repayment terms.*
[2] *The loan bears interest at rates determined from time to time and has no fixed repayment terms.*

25. Share capital and premium

Authorised				
Ordinary shares				
5 000 000 000 shares of R0.01 each	50 000	50 000	50 000	50 000
Non-redeemable, non-cumulative and non-participating preference shares[1]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Compulsorily convertible or written off, non-redeemable, non-cumulative and non-participating preference shares[2]				
100 000 000 shares of R0.01 each	–	–	–	–
Loss absorbent preference shares (conversion)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss absorbent preference shares (write-off)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
	53 000	53 000	53 000	53 000
Issued[1]				
1 300 000 (2019: 1 300 000) shares of R0.01 each at par	13	13	13	13
Share premium	6 105 968	6 105 968	6 105 968	6 105 968
Ordinary share capital and premium	6 105 981	6 105 981	6 105 981	6 105 981
809 821 (2019: 904 049) shares of R0.01 each at par	8	9	8	9
Share premium	73 090	81 594	73 090	81 594
Non-redeemable, non-cumulative, non-participating preference share capital and premium[1]	73 098	81 603	73 098	81 603
Total issued share capital and premium	6 179 079	6 187 584	6 179 079	6 187 584

[1] *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, 71.77% (2019: 68.48%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*
[2] *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 and non-participating preference shares were substituted for 100 000 000 loss absorbent preference shares (conversion) with a par value of R0.01 each.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

26. Cash flow hedge and other reserves

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Cash flow hedge reserve				
Balance at the beginning of the year	(9 588)	(26 737)	(9 588)	(26 737)
Amount recognised in other comprehensive income during the year	(31 706)	5 009	(31 706)	5 009
Amount reclassified from other comprehensive income and included in profit and loss for the year	15 377	18 809	15 377	18 809
	(25 917)	(2 919)	(25 917)	(2 919)
Deferred tax recognised in other comprehensive income during the year	4 572	(6 669)	4 572	(6 669)
Balance at the end of the year[1]	(21 345)	(9 588)	(21 345)	(9 588)

R'000	GROUP 2020	GROUP 2019
Other reserve[2]		
Balance at the beginning of the year	–	–
Amount recognised in other comprehensive income during the year	(6 344)	–
Balance at the end of the year	(6 344)	–
Deferred tax recognised in other comprehensive income during the year	1 382	–
Balance at the end of the year	(4 962)	–

(1) *The hedging reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items are detailed in note 19 and comprise variable rate bonds and a floating rate note (FRN). Refer to notes 45 for the hedging instruments' disclosures.*
(2) *The other reserves include employee benefits reserve and other reserves from Mercantile.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

27. Net lending, investment insurance and transaction fee income

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Interest income				
Loans and advances	12 893 147	11 934 172	12 544 336	11 934 172
Loan origination fees	658 198	787 560	651 092	787 560
Non-bank money market placements	3 488	185	3 488	185
Money market funds and term deposit investments	1 753 134	1 729 494	1 668 529	1 729 494
Treasury bills – less than 3 months	–	1 743	–	1 743
Bank balances	2 225	2 028	2 225	2 028
Resale agreements	606 187	127 220	606 187	127 220
Interest-bearing instruments[3]	1 123 439	917 262	1 104 013	917 262
Total interest income	17 039 818	15 499 664	16 579 870	15 499 664
Loan fee and net insurance income				
Monthly service fee	979 624	931 470	975 456	931 470
Net insurance income[1]	980 838	794 977	980 838	794 977
Total loan fee and insurance income	1 960 462	1 726 447	1 956 294	1 726 447
Total lending, investment and net insurance income	19 000 280	17 226 111	18 536 164	17 226 111
Interest expense				
Call and current accounts	(2 317 387)	(1 839 676)	(2 288 596)	(1 839 676)
Term, foreign and fixed deposits	(2 570 045)	(2 068 356)	(2 446 768)	(2 068 356)
Subordinated debt	(116 391)	(266 418)	(116 391)	(266 418)
Listed senior bonds	(282 094)	(266 310)	(282 094)	(266 310)
Unlisted negotiable instruments	(28 298)	(57 339)	(28 298)	(57 339)
Interest paid (IFRS 16 *Leases*)	(255 583)	–	(255 201)	–
Other	(110 050)	(11 450)	(27 086)	(11 450)
Total interest expense	(5 679 848)	(4 509 549)	(5 444 434)	(4 509 549)
Loan fee expense[2]	(90 186)	(219 768)	(90 186)	(219 768)
Total lending, investment and insurance expense	(5 770 034)	(4 729 317)	(5 534 620)	(4 729 317)
Net lending, investment and insurance income	13 230 246	12 496 794	13 001 544	12 496 794
Transaction fee income				
Card commission income	1 795 239	1 459 785	1 770 399	1 459 785
Other banking fees	8 467 310	7 014 174	8 324 368	7 014 174
Total transaction fee income	10 262 549	8 473 959	10 094 767	8 473 959

[1] *Refer to note 11. Credit life insurance net income on the third-party cell captive for loans issued subsequent to 6 May 2016.*
[2] *Credit life insurance cost on the first-party cell captive for loans issued prior to May 2016.*
[3] *Interest-bearing instruments include treasury bills with maturity greater than 3 months.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

28. Dividend income

Investments at FVTPL	–	287	–	287
	–	287	–	287

29. Credit impairments

Bad debts written off[1]	5 171 393	1 268 257	5 105 697	1 268 257
Movement in provision for credit impairments[2]	565 838	3 649 162	517 114	3 649 162
Gross credit impairment charge	5 757 231	4 917 419	5 622 811	4 917 419
Bad debts recovered[3]	(1 263 561)	(467 174)	(1 262 525)	(467 174)
Net credit impairment charge	4 473 670	4 450 245	4 360 286	4 450 245

(1) *This comprises those elements of the movement in gross loans and advances pertaining to write-offs and modifications as disclosed in note 9.*
(2) *This comprises all elements in the movement in provision for ECL as disclosed in note 9 other than for the take on balance on acquisition of subsidiary and ECL raised directly against interest received for loans in stage 3 where interest is recognised on the net carrying amount – R1 526 million (2019: R1 073 million). As such, it includes new ECL raised as well as ECL released on loans settled during the year as well as loans that were written off.*
(3) *Bad debts recovered include R67 million (2019: R6.1 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

30. Operating expenses

The following items are included in operating profit before tax:				
Loss on disposal of property, plant and equipment	46 077	9 142	46 075	9 142
Loss on disposal of intangibles	450	474	450	474
Depreciation on property and equipment	511 949	436 505	502 672	436 505
Depreciation charge on right-of-use asset premises	420 506	–	417 461	-–
Amortisation of computer software	190 424	196 381	171 294	196 381
	1 169 406	642 502	1 137 952	642 502
Advertising and marketing	254 368	219 961	253 661	219 961
Bank charges	321 992	308 238	321 732	308 238
Consumables	403 373	272 645	400 680	272 645
Communications	216 918	196 030	215 400	196 030
Security expenses	468 179	304 827	463 912	304 827
Information technology	517 405	327 636	496 038	327 636
Lease rentals				
Land and buildings	13 936	505 052	12 088	505 052
Office equipment	–	39	–	39
	13 936	505 091	12 088	505 091
Auditors' remuneration				
Audit fees – current year[4]	24 909	14 181	14 879	14 181
Audit fees – prior year (including disbursements)	749	604	749	604
Other services[4]	1 712	555	1 200	555
	27 370	15 340	16 828	15 340
Employee costs				
Salaries and bonus costs	4 070 179	3 472 106	3 971 582	3 472 106
Cash-settled share-based payment	65 034	255 707	64 792	255 707
Cash-settled share appreciation rights	65 559	188 712	65 317	188 712
Social security cost	123 270	108 860	121 975	108 860
Training cost	83 600	76 160	83 461	76 160
Training refund	(11 252)	(6 511)	(11 252)	(6 511)
	4 396 390	4 095 034	4 295 875	4 095 034

(4) *Audit fees for the current year includes R10.0 million paid to an audit firm other than the group auditors.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

31. Income tax expense

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Current tax	2 042 406	2 121 593	2 032 444	2 121 593
Deferred tax	(247 763)	(402 826)	(240 934)	(402 826)
Income tax expense	1 794 643	1 718 767	1 791 510	1 718 767
Effective tax rate (%)	22	25	22	25
The tax on the profit before tax differs from the theoretical amount that would arise using the basic normal company tax rate as follows:				
Operating profit before tax	8 015 231	6 850 828	8 010 692	6 850 828
Tax calculated at a tax rate of 28%	2 244 265	1 918 232	2 242 994	1 918 232
Adjustments for prior periods	(5 078)	75 000	(4 317)	75 000
Income not subject to tax[1]	(401 059)	(236 734)	(400 684)	(236 734)
Expenses not deductible for tax purposes	17 320	719	17 230	719
Allowances not in income statement[2]	(64 008)	(38 450)	(63 713)	(38 450)
Non-taxable position of Capital gain	973	–	–	–
Movement in unutilised tax losses	2 230	–	–	–
Income tax expense	1 794 643	1 718 767	1 791 510	1 718 767

[1] *This relates to exempt income in the form of dividends received from both the credit life insurance and funeral insurance cell captive arrangements.*
[2] *The adjustment regarding allowances not in the income statement relate to Learnership agreements as per section 12H of the Income tax Act.*

32. Dividends paid

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

R'000	Rand	Declared	LDT	Date paid
2020				
Ordinary dividend				
Interim	872 984	26 Sep 2019	29 Oct 2019	04 Nov 2019
Preference dividend				
Interim	3 527	31 Aug 2019	17 Sep 2019	23 Sep 2019
Final	3 345	29 Feb 2020	17 Mar 2020	23 Mar 2020
2019				
Ordinary dividend				
Interim	728 450	25 Sep 2018	16 Oct 2018	22 Oct 2018
Final	1 295 022	27 Mar 2019	15 Apr 2019	23 Apr 2019
Special dividend	15 000	26 Mar 2018	–	29 Mar 2018
Special dividend	124 683	14 Jun 2018	–	15 Jun 2018
Special dividend	54 743	3 Sep 2018	–	10 Sep 2018
Preference dividend				
Interim	4 999	31 Aug 2018	18 Sep 2018	25 Sep 2018
Final	3 786	28 Feb 2019	18 Mar 2019	25 Mar 2019

33. Segment information

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the 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 2 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 loan clients. There are 3 different loan products granted, namely term loans, credit facilities and credit cards. Interest-earned, monthly fees and net insurance income are disclosed in note 27; and
- profit sharing arrangement with regard to the funeral insurance policy sold by the group.

Business banking

- loan products that are granted to business banking clients. There are 5 different loan products granted, namely term loans, mortgage loans, credit facilities, instalment sales and leases and credit cards. Interest earned and monthly fees is disclosed in note 27; 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.

The revenue from external parties and all other items of income, expenses, profits and losses reported in the segment report are measured in a manner consistent with that in the income statement. The fees from external clients for each major group of products and services are disclosed in note 27.

R'000	Retail	2020 Business	Total	Retail	2019 Business	Total
			GROUP			

33. Segment information (continued)

R'000	2020 Retail	2020 Business	2020 Total	2019 Retail	2019 Business	2019 Total
Lending, investment and insurance income	18 536 163	479 005	19 000 280	17 226 111	–	17 226 111
Interest income[1]	16 579 869	474 837	17 039 818	15 499 664	–	15 499 664
Loan fee income	975 456	4 168	979 624	931 470	–	931 470
Net insurance income	980 838	–	980 838	794 977	–	794 977
Lending and investment expenses	(5 534 621)	(250 301)	(5 770 034)	(4 729 317)	–	(4 729 317)
Interest expense[1]	(5 444 435)	(250 301)	(5 679 848)	(4 509 549)	–	(4 509 549)
Loan fee expense	(90 186)	–	(90 186)	(219 768)	–	(219 768)
Net lending, investment and insurance income	13 001 542	228 704	13 230 246	12 496 794	–	12 496 794
Transaction fee income	10 094 767	167 782	10 262 549	8 473 959	–	8 473 959
Transaction fee expense	(2 735 988)	(110 935)	(2 846 923)	(2 009 669)	–	(2 009 669)
Net transaction income	7 358 779	56 847	7 415 626	6 464 290	–	6 464 290
Dividend income	–	–	–	287	–	287
Credit impairments	(4 360 286)	(113 384)	(4 473 670)	(4 450 245)	–	(4 450 245)
Foreign currency income	–	38 691	38 691	–	–	–
Funeral income	413 133	–	413 133	53 456	–	53 456
Other income	18 801	12 704	31 505	133	–	133
Net income	16 431 969	223 562	16 655 531	14 564 715	–	14 564 715
Operating expenses	(8 421 276)	(215 671)	(8 636 947)	(7 713 887)	–	(7 713 887)
Amortisation of intangible asset – core deposits and client relationships[1]	–	–	(4 691)	–	–	–
Share of net profit of associates	1 338	–	1 338	–	–	–
Operating profit before tax	8 012 031	7 891	8 015 231	6 850 828	–	6 850 828
Income tax expense	(1 791 510)	(4 446)	(1 795 956)	(1 718 767)	–	(1 718 767)
Tax on amortisation of intangible assets[1]	–	–	1 313	–	–	–
Profit for the year	6 220 521	3 445	6 220 588	5 132 061	–	5 132 061
Assets						
Net loans and advances	52 011 683	10 029 876	62 041 559	44 509 305	–	44 509 305
Other[2]	67 436 172	5 720 394	71 218 890	55 551 979	–	55 551 979
Acquisition of Mercantile	–	–	888 297	–	–	–
Goodwill[1]	–	–	794 487	–	–	–
Intangible asset – Core deposit intangible[1]	–	–	76 933	–	–	–
Intangible asset – Client relationships[1]	–	–	16 877	–	–	–
Total assets[2]	119 447 855	15 750 270	134 148 746	100 061 284	–	100 061 284

[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.*

34. 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 34 should be read with the sections of the integrated annual report marked as audited in the risk management report from page 82 to 107.

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The board established 2 risk and capital management committees (RCMC), including 2 independent non-executive directors for retail banking and 4 independent non-executive directors for business banking, that operate in compliance with a formal charter. The committees assist the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment.

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

- Credit committee (retail and business banking) – credit and counterparty risk;
- ALCO (retail and business banking) – interest rate, market, liquidity, counterparty, currency and capital adequacy risk;
- Risk committee (retail banking) – legal, compliance, technology, operational and reputational risk; and
- Risk committee (business banking) – oversight of risk and capital management.
- Technology committee (business banking) – oversight of technology risk

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed 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.

34.1 Credit risk

Refer to page 86 to 89 and 102 to 103 of the integrated annual report for the qualitative disclosure of credit risk, marked as audited, as well as note 9.

The group grants retail loans and certain business 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 group also offers a spread of business banking products common to the banking industry. The core market focus is established small to medium-sized businesses and commercial companies across a wide variety of industries, as well as private banking to the respective entrepreneurs. A group subsidiary, Mercantile Rental Finance, provides rental finance solutions with its core focus being the office automation, telecommunications and information technology sectors.

Credit risk is managed through every stage of the credit life cycle by following a combination of governance, decision support and business support. Governance includes regulators, industry associations, the group's financial governance and committees which support and influence 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 for unsecured retail lending. Credit risk management is provided by other areas of business to ensure optimisation of the granting, collections and recoveries models and systems.

34. Financial risk management (continued)

34.1 Credit risk (continued)

Measures taken by the group to limit credit risk for unsecured retail lending 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. Dependent on the risk profile of the client across all portfolios or market segments for business banking, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are taken to mitigate credit-related risks. The group does, however, have a small structured loan portfolio for its business banking clients that includes an element of unsecured lending and the group is financially rewarded for the additional risk taken.

The key consideration regarding credit risk management for the group is to maintain the retail lending book within the group's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

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.

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 National Credit Act, 2005 (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 employees 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 him or her. 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 for which they qualify. This is due to the manner in which the pricing for risk model reacts to the lower default rates for such clients.

When existing clients apply for further credit, we 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 on all Capitec loans and to clients who have a satisfactory credit risk.

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.

Acquisition and retention strategies are built on the principles of the 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.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. The circumstances may include:

- employers who reduce overtime and bonuses or place employees 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.

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 counterproductive. In such a case, clients could refuse to cooperate, stop communicating with us and stop paying instalments.

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

We use system-based rules to limit instances where we allow rescheduling. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term for which the loan can be extended. 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 who 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 using a segmented approach to ensure that it remains within the bank's risk appetite. Refer to note 9 for reschedule information.

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.

The group adopts a measured approach to credit granting for its business banking clients, within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process automated on the bank's workflow system. Levels of credit approval mandates are determined by the experience of the mandated individual, with dual or multiple sign-off on all material values. Mandates have also been accorded to frontline management within predetermined rules and parameters as approved by the RCMC, which approvals are evaluated and monitored by credit on an ongoing basis.

34. Financial risk management (continued)

34.1 Credit risk (continued)

An ongoing weekly review is undertaken by the credit committee of all new and renewal proposals for lending in excess of R2 million (in aggregate). This meeting covers a wide variety of topics, including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the bank's advances portfolio composure and performance, and any other relevant credit-related matters requiring specific mention or discussion. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at the weekly CC meeting with appropriate actions being taken.

Identified accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly "watch list" reporting. Fortnightly collection meetings are held and non-performing exposures are interrogated and monitored. To protect the group, prompt action is taken by senior internal stakeholders, including the CEO, on large defaults. This action has seen a good measure of historical success given our flat structure that drives agility.

Counterparties to derivatives expose the group to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The group continually monitors its positions and the credit ratings of its counterparties and limits the value of contracts it enters into with any 1 party to within pre-approved transactional limits.

Credit risk mitigation

Interest rate limits and fees for credit agreements were changed on 6 May 2016 by the National Credit Regulator (NCR). Prior to this date, we charged our retail banking 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 through a first-party cell captive structure. Following the changes from May 2016, all loans granted that are greater than 6 months require our retail banking clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment, temporary or permanent disability and loss of income, 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 reinsured annually to April to the reinsurance market except for temporary disability cover which has been retained by the cell captive.

Collateral and other credit enhancements

The group employs a range of policies and practices to mitigate credit risk for its business banking clients. The most common of these is accepting collateral for funds advanced. The group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The group prepares a valuation of the collateral obtained as part of the loan origination process and this assessment is reviewed periodically. The principal collateral types for loans and advances are:

- mortgages over residential properties;
- charges over business assets, such as premises, inventory and accounts receivable; and
- charges over financial instruments, such as debt securities.

Longer-term finance and lending to corporate entities are generally secured; while credit card facilities are generally unsecured. The group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the acquisition date.

A portion of the group's financial assets originated by the mortgage business has sufficiently low loan-to-value ratios. The loss allowance would be reduced as a result of holding collateral.

The group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held to mitigate potential losses are detailed in note 9 of the notes to the annual financial statements.

Measurement of ECL

The key inputs used for measuring ECL are:

- PD;
- LGD; and
- EAD.

PD is an estimate of the likelihood of default over a given time horizon. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact the PD.

The calculation is based on a statistical model that predicts the future repayment performance of clients based on their arrears status, model segment and tenure. Future cash flows and arrears status probabilities are generated from which an ECL provision is calculated. The prediction of future repayment is based on observed roll rates over the last 12 months. Roll rates refer to the rates at which clients transition or roll from a repayment status in a given month to a repayment status in the following month.

LGD is an estimate of the loss arising on default. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis. LGD models for secured business banking products are based on the difference between the contractual cash flows due and those that the group expects to receive, taking into account cash flows from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The EAD is calculated by creating an amortisation structure for each account. This structure includes the expected monthly repayment, as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The group uses EAD models that reflect the characteristics of the portfolios.

Impairment – measurement of the ECL

The developing and measuring of the group's processes for measuring ECL, including the monitoring of SICR, the incorporation of economic forward-looking information and the methods used to calculate ECL and ensuring that policies and procedures are in place to appropriately maintain and validate models used to measure ECL, are overseen by the group's credit committees. The internal audit function performs regular audits to ensure that established controls and procedures are both adequately designed and implemented.

Impairment implementation

Staged approach to the determination of ECL

IFRS 9's ECL model requires the classification and measurement of ECL using the general model for loans and advances measured at amortised cost. In essence, the general model is a 3-stage model. Loans and advances within stage 1 are measured based on a 12 month ECL and a lifetime ECL is determined for loans and advances within stage 2 and stage 3. The 3 stages are disclosed in the accounting policies for retail and business banking.

34. Financial risk management (continued)

34.1 Credit risk (continued)

SICR

The group considers reasonable and supportable information based on the group's historical experience, credit risk assessment and forward-looking information (including macro-economic factors) when determining whether the credit risk (i.e. the risk of default) of loans and advances has increased significantly since initial recognition. The assessment of SICR is key in determining when to move from measuring an impairment provision based on a 12 month ECL to 1 that is based on a lifetime ECL (the move from stage 1 to stage 2). The group's ECL framework aligns with the group's credit granting strategy.

As disclosed in note 9, the group monitors financial debt instruments subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. If there has been a SICR the group will measure the loss allowance based on lifetime rather than 12 month ECL.

In terms of IFRS 9, all loans and advances exposures are assessed at each reporting date (monthly) to determine whether there has been a SICR, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the impairment provision at an amount equal to the 12 month ECL. The group identifies SICR for clients that are up-to-date on their loans, but who have reached certain behaviour risk thresholds or where specific events have occurred that raise a SICR flag. The 12 month ECL is extended to a lifetime ECL for these clients.

The group has set certain behaviour and granting score thresholds for its unsecured retail banking clients which are used to identify a SICR.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing client's propensity to be in default on a loan after 12 months. The score was built on a client level, utilising Capitec loans and savings account information, as well as the credit exposure and repayment behaviour at external credit providers. The behaviour score is updated monthly on all existing loan clients to ensure that Capitec has a consistently updated view of the client.

The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposure that share similar credit characteristics in order to account for forward-looking information that may not be identified at an individual loan level.

The updated granting view is simply a reinterpretation of the information available at granting date and is not an updated view on the client. Updated client information is incorporated in the behaviour score.

The SICR thresholds are reviewed on an annual basis to ensure that they are able to identify an SICR throughout the lifetime of the loan.

The group considers a financial instrument for its business banking clients to have experienced a SICR if the borrower is on the watch list and/or meets at least one of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value which is expected to increase the risk of default; or
- Early signs of cash flow or liquidity problems such as delay in servicing of trade creditors and loans

A backstop is applied and the financial instrument is considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Incorporation of forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future credit losses should not only depend on the health of the economy presently, but should take into account changes to the economic environment in the future.

To capture the effects of changes to the economic environment in the future, the forward-looking model for retail banking considers economic variables specific to South Africa that directly impacts the group's clients. The group utilises the BER macro-economic outlook for the country over a planning horizon of at least 3 years. The outlook is provided to the ALCO for review and approval. Refer to note 3.

The current risk assessment framework for business banking includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate enough forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

Write-off policy

Under IFRS 9, loans can only be written off when there is no reasonable expectation of recovery. The group therefore applies write-off for retail loans when the present value of projected future recoveries is less than 5% of the gross balance before write-off. Refer to note 2.5.1.2.3.

All recoveries after write-off are recognised as bad debts recovered.

Loans and debt securities for business banking clients are written off when the group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the group determines that the borrower does not have assets or sources of income that could generate enough cash flows to repay the amounts subject to the write-off. The group may apply enforcement activities to financial assets written off.

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 5 to 8). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the CC, and monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's.

34. Financial risk management (continued)

34.1 Credit risk (continued)

Credit quality of investments

At statement of financial position date the international long-term credit ratings, using Moody's ratings, were as follows:

		GROUP						
R'000	**Notes**	**A1 to A3**	**Aaa to A3**	**Baa1 to Baa3**	**Below Baa3**	**Not rated**	**Adjust-ment[4]**	**Total carrying amount**
2020								
Cash on hand	5	–	–	3 132 156	–	–	–	3 132 156
Bank balances – local and foreign[1]	5	142 181	740 979	12 225 527	–	110	(2 031)	13 106 766
Resale agreements	5	–	–	23 482 481	–	607 186	–	24 089 667
Central bank balances[3]	5	–	–	1 863 408	–	–	–	1 863 408
Money market unit trusts[2]	5	–	–	–	–	25 374	–	25 374
Collective investment schemes	7	–	–	–	–	1 529 636	–	1 529 636
Financial investments	6	–	–	17 215 500	–	–	(8 406)	17 207 094
SARB settlement and other receivables	10	–		817 689	–	682 023	–	1 499 712
Net insurance receivable	11	–	–	217 423	–	–	–	217 423
Derivative assets	45	–	–	37 440	–	–	–	37 440
		142 181	740 979	58 991 624	–	2 844 329	(10 437)	62 708 676
2019								
Cash on hand	5	–	–	3 601 994	–	–	–	3 601 994
Bank balances[1]	5	–	2	13 222 413	–	114	(4 281)	13 218 248
Resale agreements	5	–	–	10 605 141	–	506 222	(34)	11 111 329
Central bank balances[3]	5	–	–	1 163 650	–	–	–	1 163 650
Money market funds[2]	5	–	–	–	–	35 496	–	35 496
Treasury bills (>3 months)	6	–	–	10 741 057	–	–	(8 663)	10 732 394
Term deposit investments	8	–	811 086	8 413 100	110 000	–	(2 889)	9 331 297
Other receivables	10	–	–	991 691	–	345 334	–	1 337 025
Net insurance receivable	11	–	–	236 391	–	–	–	236 391
Derivative assets	45	–	–	479	–	–	–	479
		–	811 088	48 975 916	110 000	887 166	(15 867)	50 768 303

[1] *The bank balances were with 26 institutions (2019: 9), with the maximum exposure to 1 institution being R13 991 million (2019: R13 057 million). The balances are rand and foreign denominated. Refer to note 5.*
[2] *Money market funds consist of money market unit trusts. The placements were with 4 institutions (2019: 5).*
[3] *All central bank balances are with the SARB and includes the mandatory reserve deposit requirement.*
[4] *The adjustment relates to ECL. The credit ratings determine the ECL raised.*

COMPANY

R'000	Notes	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated	Adjustment[4]	Total carrying amount
2020							
Cash on hand	5	–	**3 107 346**	–	–	–	**3 107 346**
Bank balances[1]	5	–	**11 309 866**	–	**110**	**(1 870)**	**11 308 106**
Resale agreements	5	–	**23 482 481**	–	**607 186**	–	**24 089 667**
Central bank balances[3]	5	–	**1 616 827**	–	–	–	**1 616 827**
Money market unit trust[2]	5	–	–	–	**25 374**	–	**25 374**
Collective investment schemes	5	–	–	–	**1 529 636**	–	**1 529 636**
Financial investments	6	–	**16 338 092**	–	–	**(8 382)**	**16 329 710**
SARB settlement and other receivables	10	–	**641 044**	–	**440 671**	–	**1 081 715**
Net insurance receivable	11	–	**217 423**	–	–	–	**217 423**
Derivative assets	45	–	**5 713**	–	–	–	**5 713**
		–	**56 718 792**		**2 602 982**	**(10 252)**	**59 311 517**
2019							
Cash on hand	5	–	3 601 994	–	–	–	3 601 994
Bank balances[1]	5	2	13 222 413	–	114	(4 281)	13 218 248
Resale agreements	5	–	10 605 141	–	506 222	(34)	11 111 329
Central bank balances[3]	5	–	1 163 650	–	–	–	1 163 650
Money market funds[2]	5	–	–	–	35 496	–	35 496
Treasury bills (>3 months)	6	–	10 741 057	–	–	(8 663)	10 732 394
Term deposit investments	8	811 086	8 413 100	110 000	–	(2 889)	9 331 297
Other receivables	10		991 691		345 334	–	1 337 025
Net insurance receivable	11	–	236 391	–	–	–	236 391
Derivative assets	45	–	479	–	–	–	479
		811 088	48 975 916	110 000	887 166	(15 867)	50 768 303

(1) *The bank balances were with 7 institutions (2019: 9), with the maximum exposure to 1 institution being R13 306 million (2019: R13 057 million).*
(2) *Money market funds consist of money market unit trusts. The placements were with 4 institutions (2019: 5).*
(3) *All central bank balances are with the SARB and includes the mandatory reserve deposit requirement.*
(4) *The adjustment relates to ECL. The credit ratings determine the ECL raised.*

34. Financial risk management (continued)

34.2 Interest rate risk

The exposure to interest rate risk is managed within board approved tolerances. These tolerances are monitored by RCMC and ALCO and escalated according to tolerance bands. The current group interest rate profile is monitored by ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including *inter alia*, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio.

Retail banking

Interest rate risk position for the group's retail banking segment 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 and basis risk.

ALCO only allows derivatives for the hedging of interest rate risk in the funding book for retail banking. Interest rate swaps are used to convert floating-rate funding to fixed-rate funding with the objective of matching fixed rate assets with fixed rate liabilities and floating rate assets with floating rate liabilities. The nominal amounts and the payment dates of the hedging instrument match the hedged item exactly from the date of the hedge and as a consequence there is 100% hedge effectiveness.

To measure interest rate risk, the group aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest repricing dates. The group uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

Cash flow interest rate risk

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

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 for a period of 1 year;
- considering the contractual maturity buckets of financial assets and liabilities, with fixed interest rate instruments becoming variable on maturity; and
- including notional derivative cash flows, included in repricing maturity buckets.

	Impact on income statement	
200 basis points	**2020**	**2019**
R'000	**Pre-tax**	**Pre-tax**
Increase	**(156 000)**	(111 408)
Decrease	**156 000**	111 408

Compliance with the prescribed maximum interest rates

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

Business banking

The business banking segment is exposed to interest rate risk as it takes deposits from clients at both fixed and variable interest rates. The group manages the risk by maintaining an appropriate mix between fixed and floating rate funds, as well as by using interest rate swap contracts and matching the maturities of deposits and assets, as appropriate.

Interest rate margin stability is managed by hedging material exposures and by not allowing any intentional proprietary interest rate positions. Swap contracts enable the group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin between lending income and borrowing costs when applied to rate-sensitive assets and liabilities. The group is also exposed to basis risk, which is the difference in repricing characteristics of 2 floating rates, such as the South African prime rate and 3 month JIBAR.

To measure interest rate risk, interest rate sensitive assets and liabilities are aggregated into defined time bands, in accordance with the respective interest repricing dates. The group uses dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Mercantile prepares reports taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

To monitor the effect of the gaps on net interest income, the group produces a regular forecast of interest rate-sensitive asset and liability scenarios. This includes relevant banking activity performance and trends, different forecasts of market rates and expectations reflected in the yield curve.

At the reporting date, a 50 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in interest rates.

If interest rates increased/decreased by 50 basis points, and all other variables remained constant, the business banking profit would increase by R13.9 million or decrease by R21.1 million respectively. This is mainly attributable to the group's exposure to interest rates on its surplus capital and lending and borrowings in the banking book.

34.3 Currency risk

The group, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports, and interest flows on foreign liabilities. The group also manages foreign currency purchase risk relating to the importation of capital equipment, technology and technology support services needed for the core banking activities through the purchase of forward foreign exchange contracts. The group enters into economic hedge foreign currency swaps.

The group has conservative net open foreign currency position limits that are well below the limits allowed by the SARB. For the year under review, the highest net open position recorded, for any single day, was R20.6 million. An adverse movement in the exchange rate of 10% would reduce the group's income by R2.1 million. The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

R'000	US dollar	Euro	Pound sterling	Other	Total
2020					
Total foreign exchange assets	784	151	98	47	1 080
Total foreign exchange liabilities	(696)	(98)	(57)	(33)	(884)
Commitments to purchase foreign currency	354	256	64	22	696
Commitments to sell foreign currency	(435)	(305)	(107)	(33)	(880)
Year-end effective net open foreign currency positions	7	4	(2)	3	12

34. Financial risk management (continued)

34.4 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates.

The board determines market risk limits, which are reviewed at least annually or depending on prevailing market conditions.

The group does not currently take proprietary trading positions and, therefore, has minimal exposure to market risk. Should the group consider entering into a proprietary trading position, the trading committee and RCMC will have to evaluate and approve such action. The trading committee will ensure that the group is sensibly positioned, taking into account agreed limits, policies, prevailing market conditions, available liquidity and the risk reward trade-off, mainly in respect of changes in foreign currency exchange rates and interest rates.

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the ALM forum records this and it is immediately corrected and reported to the ALCO. Controls are in place to monitor foreign exchange exposures on a real-time basis through the bank's treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RCMC and the board on a regular basis.

34.5 Liquidity risk

The group manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by the ALCO in terms of an approved 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 without incurring unacceptable losses.

The table below analyses the group's assets and liabilities into maturity groupings based on the remaining period, at statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result;
- The cash flows of floating rate financial instruments are calculated using published forward market rates at statement of financial position date;
- The cash flows of the derivative financial instruments are included on a gross basis;
- Contractual cash flows with respect to items which have not yet been recorded on the statement of financial position are excluded. Refer to note 40;
- Adjustments to loans and advances to clients relate to initiation fee income; and
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.
- Non-contractual loans comprise discounted stage 3 loans and advances that are more than 3 months in arrears, have legal statuses (including debt review), but excluding loans where debt review was applied for less than 6 months ago. It is shown as non-contractual because it is subject to legal collection processes.

Refer to page 97 to 98 and 106 to 107 of the integrated annual report for more on management's objectives, policies and processes for managing the risk.

Maturities of financial assets and financial liabilities[1][2]

R'000	Notes	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non - contractual	Adjust-ment[3]	Total
				GROUP				
2020								
Undiscounted assets								
Cash and cash equivalents – sovereigns	5	1 888 217	–	–	–	–	–	1 888 217
Cash and cash equivalents – banks	5	32 466 117	7 952 820	–	–	–	(2 031)	40 416 906
Financial assets at FVTPL		1 504 262	–	–	–	–	–	1 504 262
Money markets unit trusts – corporate other	5	25 374	–	–	–	–	–	25 374
Financial investments	6	1 524 950	3 305 000	12 917 250	–	–	(8 406)	17 738 794
Financial assets - equity instruments at FVOCI	12	–	–	–	101 139	–	–	101 139
Loans and advances – Retail	9	3 614 359	5 793 821	23 033 552	62 047 547	7 280 001	(500 502)	101 268 778
Loans and advances – Business other	9	1 704 903	225 190	911 908	2 605 084	268 710	–	5 715 795
Loans and advances – Mortgages	9	95 312	189 920	741 683	7 710 254	311 822	–	9 048 991
Other receivables	10	1 310 799	144 013	315 253	37 259	–	–	1 807 324
Net insurance receivable	11	–	–	217 423	–	–	–	217 423
Derivative assets	45	16 894	9 736	7 940	2 870	–	–	37 440
Group loans receivable	13	15 257	–	–	–	–	–	15 257
Current income tax asset		–	–	4 554	–	–	–	4 554
Undiscounted assets		44 166 444	17 620 500	38 149 563	72 504 153	7 860 533	(510 939)	179 790 254
Adjustments for undiscounted assets		(1 200 603)	(2 434 247)	(9 437 411)	(27 824 391)	–	–	(40 896 652)
Discounted assets								
Provision to ECL	9	(575 772)	(413 147)	(1 728 497)	(4 635 711)	(6 387 052)	–	(13 740 179)
Total discounted assets		42 390 069	14 773 106	26 983 655	40 044 051	1 473 481	(510 939)	125 153 423
Undiscounted liabilities								
Retail deposits	19	65 978 611	4 627 016	15 794 182	17 187 494	–	–	103 587 303
Wholesale funding	19	50 113	1 044 589	985 133	2 029 294	–	–	4 109 129
Lease liability	21	45 898	88 979	400 514	3 592 629	–	–	4 128 020
Current income tax liabilities		–	14 345	–	–	–	–	14 345
Trade and other payables	20	1 667 077	600 547	21 207	258 026	–	85 261	2 632 118
Derivative liability	45	11 655	16 973	21 024	13 673	–	–	63 325
Group loans payable	24	70 251	–	–	–	–	–	70 251
Provisions	23	17 234	44 175	–	109 801	–	–	171 210
Undiscounted Liabilities		67 840 839	6 436 624	17 222 060	23 190 917	–	85 261	114 775 701
Adjustments for undiscounted liabilities		(35 827)	(233 542)	(1 208 567)	(4 211 428)	–	–	(5 689 364)
Total discounted liabilities		67 805 012	6 203 082	16 013 493	18 979 489	–	85 261	109 086 337
Net liquidity excess /(shortfall)[4]		(24 250 167)	10 770 729	19 199 006	44 677 525	1 473 481	(596 200)	51 274 374
Cumulative liquidity excess/ (shortfall)[1]		(24 250 167)	(13 479 438)	5 719 568	50 397 093	51 870 574	51 274 374	51 274 374

34. Financial risk management (continued)

34.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[(1)(2)]

		GROUP						
R'000	**Notes**	**Demand to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**Non-contractual**	**Adjust-ment**[(3)]	**Total**
2019								
Undiscounted assets								
Cash and cash equivalents – sovereigns	5	1 163 650	–	–	–	–	–	1 163 650
Cash and cash equivalents – banks	5	22 524 242	5 494 806	–	–	–	(4 315)	28 014 733
Money markets unit trusts – corporate other	5	35 496	–	–	–	–	–	35 496
Financial investments – sovereigns and banks	6	1 471 610	1 728 260	7 936 690	–	–	(8 663)	11 127 897
Term deposit investments	8	24 403	1 102 809	8 586 860	–	–	(2 889)	9 711 183
Financial assets – equity instruments at FVOCI	11	–	–	–	100 000	–	–	100 000
Loans and advances to clients – retail personal[(6)]	9	3 309 370	5 148 189	20 502 763	53 951 384	5 564 797	(608 742)	87 867 761
Loans and advances to clients – corporate other	9	23 372	–	–	–	–	–	23 372
Other receivables	10	1 195 889	115 080	84 734	20 323	–	–	1 416 026
Net insurance receivable	11	–	-	236 391	–	–	–	236 391
Derivative assets	45	–	59	(83)	575	–	–	551
Group loans receivable	13	331 465	–	–	–	–	–	331 465
Current income tax asset		–	–	286 046	–	–	–	286 046
Undiscounted assets		30 079 497	13 589 203	37 633 401	54 072 282	5 564 797	(624 609)	140 314 571
Adjustments for undiscounted assets[(6)]		(1 066 426)	(2 167 073)	(8 557 147)	(21 069 178)	–	–	(32 859 824)
Discounted assets		–	–	–	–	–	–	–
Loan impairment provision[(6)]	9	(419 438)	(350 335)	(1 496 878)	(4 069 851)	(5 044 125)	–	(11 380 627)
Total discounted assets		28 593 632	11 071 795	27 579 376	28 933 253	520 672	(624 609)	96 074 120
Undiscounted liabilities								
Retail deposits	19	46 497 972	2 866 125	11 495 083	14 022 798	–	–	74 881 978
Wholesale funding	19	72 154	371 916	2 222 196	3 034 663	–	–	5 700 929
Trade and other payables	20	1 107 102	743 587	147 905	305 354	–	239 280	2 543 228
Derivative liability	45	272	2 599	7 389	5 316	–	–	15 576
Provisions	23	–	–	–	91 005	–	–	91 005
Undiscounted Liabilities		47 677 500	3 984 227	13 872 573	17 459 136	–	239 280	83 232 716
Adjustments for undiscounted liabilities to depositors		(30 544)	(215 494)	(1 128 074)	(2 766 055)	–	–	(4 140 167)
Total discounted liabilities		47 646 956	3 768 733	12 744 499	14 693 081	–	239 280	79 092 549
Net liquidity excess/(shortfall)[(4)(5)]		(18 017 441)	9 254 641	22 263 950	32 543 295	520 672	(863 889)	45 701 228
Cumulative liquidity excess/ (shortfall)[(1)]		(18 017 441)	(8 762 800)	13 501 150	46 044 445	46 565 117	45 701 228	45 701 228

[(1)] *Much of the liquidity shortfall in the demand to 3 month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities In excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise.*
[(2)] *The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.*
[(3)] *The adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income, the straight-lining of lease accruals and ECL.*
[(4)] *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*
[(5)] *Off balance sheet guarantees for business banking to the value of R639 million and irrevocable loan commitments to the value of R1 825 million (2019: R912 million) that have a maturity of demand to 1 month have not been included above.*
[(6)] *Refer to footnote 2 on page 242.*

Maturities of financial assets and financial liabilities[1][2]

		COMPANY						
R'000	Notes	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non - contractual	Adjust-ment[3]	Total
2020								
Undiscounted assets								
Cash and cash equivalents – sovereigns	5	1 616 827	–	–	–	–	–	1 616 827
Cash and cash equivalents – banks	5	30 667 295	7 952 820	–	–	–	(1 870)	38 618 245
Financial assets at FVTPL		1 504 262	–	–	–	–	–	1 504 262
Money markets unit trusts – corporate other	5	25 374	–	–	–	–	–	25 374
Financial investments – sovereigns and banks	6	1 434 950	3 155 000	12 249 110	–	–	(8 382)	16 830 678
Financial assets – equity instruments at FVOCI	12	–	–	–	100 000	–	–	100 000
Loans and advances to clients – retail personal	9	3 614 359	5 793 821	23 033 552	62 047 547	7 280 001	(500 502)	101 268 778
Loans and advances to clients – corporate other	9	–	–	–	–	–	–	–
Other receivables	10	892 807	144 013	315 253	37 259	–	–	1 389 332
Net insurance receivable	11	–	–	217 423	–	–	–	217 423
Derivative assets	45	2 843	–	–	2 870	–	–	5 713
Group loans receivable	13	215 257	–	–	–	–	–	215 257
Current income tax asset		–	–	–	–	–	–	–
Undiscounted assets		39 973 974	17 045 654	35 815 338	62 187 676	7 280 001	(510 754)	161 791 889
Adjustments for undiscounted assets		(1 127 624)	(2 289 802)	(8 825 270)	(24 203 782)	–	–	(36 446 478)
Discounted assets								
Loan impairment provision	9	(546 957)	(408 692)	(1 710 212)	(4 560 360)	(6 198 490)	–	(13 424 711)
Total discounted assets		38 299 393	14 347 160	25 279 856	33 423 534	1 081 511	(510 754)	111 920 700
Undiscounted liabilities								
Retail deposits	19	56 798 966	3 523 822	15 464 503	15 495 150	–	–	91 282 441
Wholesale funding	19	42 210	1 044 589	732 158	1 909 339	–	–	3 728 296
Lease liability	21	45 090	87 558	394 960	3 586 390	–	–	4 113 998
Current income tax liabilities		–	14 345	–	–	–	–	14 345
Trade and other payables	20	1 291 369	600 547	21 207	258 026	–	85 261	2 256 410
Derivative liability	45	–	5 328	14 319	13 673	–	–	33 320
Group loans payable	24	2 182 864	–	–	–	–	–	2 182 864
Provisions	23	–	–	–	109 801	–	–	109 801
Undiscounted liabilities		60 360 499	5 276 189	16 627 147	21 372 379	–	85 261	103 721 475
Adjustments for undiscounted liabilities		(34 794)	(225 911)	(1 183 282)	(4 067 935)	–	–	(5 511 922)
Total discounted liabilities		60 325 705	5 050 278	15 443 865	17 304 444	–	85 261	98 209 553
Net liquidity excess/(shortfall)[4]		(20 933 482)	11 360 773	17 477 979	36 254 937	1 081 511	(596 015)	44 645 703
Cumulative liquidity excess/ (shortfall)[1]		(20 933 482)	(9 572 709)	7 905 270	44 160 207	45 241 718	44 645 703	44 645 703

34. Financial risk management (continued)

34.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities[1][2]

		COMPANY						
R'000	**Notes**	**Demand to 1 month**	**1 to 3 months**	**3 months to 1 year**	**More than 1 year**	**Non-contractual**	**Adjust-ment[3]**	**Total**
2019								
Undiscounted assets								
Cash and cash equivalents – sovereigns	5	1 163 650	–	–	–	–	–	1 163 650
Cash and cash equivalents – banks	5	22 524 242	5 494 806	–	–	–	(4 315)	28 014 733
Money markets unit trusts – corporate other	5	35 496	–	–	–	–	–	35 496
Financial investments – sovereigns and banks	6	1 471 610	1 728 260	7 936 690	–	–	(8 663)	11 127 897
Term deposit investments	8	24 403	1 102 809	8 586 860	–	–	(2 889)	9 711 183
Financial assets – equity instruments at FVOCI	11	–	–	–	100 000	–	–	100 000
Loans and advances to clients – retail personal[6]	9	3 309 370	5 148 189	20 502 763	53 951 384	5 564 797	(608 742)	87 867 761
Loans and advances to clients – corporate other	9	23 372	–	–	–	–	–	23 372
Other receivables	10	1 195 889	115 080	84 734	20 323	–	–	1 416 026
Net insurance receivable	11	–	-	236 391	–	–	–	236 391
Derivative assets	45	–	59	(83)	575	–	–	551
Group loans receivable	13	331 465	–	–	–	–	–	331 465
Current income tax asset		–	–	286 046	–	–	–	286 046
Undiscounted assets		30 079 497	13 589 203	37 633 401	54 072 282	5 564 797	(624 609)	140 314 571
Adjustments for undiscounted assets[6]		(1 066 427)	(2 167 073)	(8 557 147)	(21 069 178)	–	–	(32 859 824)
Discounted assets								
Loan impairment provision[6]	9	(419 438)	(350 335)	(1 496 878)	(4 069 851)	(5 044 125)	–	(11 380 627)
Total discounted assets		28 593 632	11 071 795	27 579 196	28 933 253	520 672	(624 609)	96 074 120
Undiscounted liabilities								
Retail deposits	19	46 497 972	2 866 125	11 495 083	14 022 798	–	–	74 881 978
Wholesale funding	19	72 154	371 916	2 222 196	3 034 663	–	–	5 700 929
Trade and other payables	20	1 107 102	743 587	147 905	305 354	–	239 280	2 543 228
Derivative liability	45	272	2 599	7 389	5 316	–	–	15 576
Provisions	23	–	–	–	91 005	–	–	91 005
Undiscounted Liabilities		47 677 500	3 984 227	13 872 573	17 459 136	–	239 280	83 232 716
Adjustments for undiscounted liabilities to depositors		(30 544)	(215 494)	(1 128 074)	(2 766 055)	–	–	(4 140 167)
Total discounted liabilities		47 646 956	3 768 733	12 744 499	14 693 081	–	239 280	79 092 549
Net liquidity excess/(shortfall)[4][5]		(18 017 441)	9 254 641	22 263 950	32 543 295	520 672	(863 889)	45 701 228
Cumulative liquidity excess/(shortfall)[1]		(18 017 441)	(8 762 800)	13 501 150	46 044 445	46 565 117	45 701 228	45 701 228

(1) *Much of the liquidity shortfall in the demand to 3 month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise.*
(2) *The definitions of sovereign, corporate and retail are aligned with the Banks Act Regulations.*
(3) *The adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income, the straight-lining of lease accruals and ECL.*
(4) *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*
(5) *Off balance sheet irrevocable loan commitments of R1 522 million (2019: R912 million) that have a maturity of demand to 1 month have not been included above.*
(6) *Refer to footnote 2 on page 244.*

Maturities of financial assets and financial liabilities

R'000	Notes	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
					GROUP			
2020								
Undiscounted assets								
Loans and advances – Retail	9	23 820 821	16 803 046	10 840 862	7 002 923	3 579 895	–	62 047 547
Other receivables	10	22 794	6 059	6 059	2 347	–	–	37 259
Loans and advances – Business other	9	987 670	705 617	440 745	187 646	186 190	97 216	2 605 084
Loans and advances – Mortgages	9	872 730	843 034	806 292	747 739	2 525 191	1 915 268	7 710 254
Financial assets – equity instruments at FVOCI	12	–	–	–	–	–	101 139	101 139
Derivative assets	45	2 870	–	–	–	–	–	2 870
Undiscounted assets		25 706 885	18 357 756	12 093 958	7 940 655	6 291 276	2 113 623	72 504 153
Adjustments for undiscounted assets		(8 641 707)	(6 005 665)	(4 429 336)	(4 068 487)	(4 035 716)	(643 480)	(27 824 391)
Discounted assets								
Loan impairment provision	9	(1 923 415)	(1 371 436)	(815 958)	(390 586)	(129 057)	(5 259)	(4 635 711)
Total discounted assets		15 141 763	10 980 655	6 848 664	3 481 582	2 126 503	1 464 884	40 044 051
Undiscounted liabilities								
Deposits	19	8 627 342	3 646 241	2 329 142	2 584 752	17	–	17 187 494
Wholesale funding	19	1 234 886	136 912	92 056	565 440	–	–	2 029 294
Trade and other payables	20	132 693	71 461	33 892	14 548	5 432	–	258 026
Lease liability	21	532 012	523 854	509 770	489 031	1 448 271	89 691	3 592 629
Derivative liability	45	7 753	4 144	1 712	64	–	–	13 673
Provisions	23	65 992	39 113	2 349	2 347	–	–	109 801
Undiscounted Liabilities		10 600 678	4 421 725	2 968 921	3 656 182	1 453 720	89 691	23 190 917
Adjustments for undiscounted liabilities		(1 251 003)	(792 919)	(649 656)	(715 108)	(748 328)	(54 414)	(4 211 428)
Total discounted liabilities		9 349 675	3 628 806	2 319 265	2 941 074	705 392	35 277	18 979 489
Net liquidity excess/ (shortfall)[(1)]		13 182 792	12 564 595	8 309 079	3 893 887	4 708 499	2 018 673	44 677 525
Cumulative liquidity excess/ (shortfall)		18 902 360	31 466 955	39 776 034	43 669 921	48 378 420	50 397 093	50 397 093

34. Financial risk management (continued)

34.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities

R'000	Notes	GROUP 1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2019								
Undiscounted assets								
Loans and advances to clients – retail personal[2]	9	21 332 636	14 892 584	9 459 086	5 564 374	2 702 705	–	53 951 385
Other receivables	10	14 140	2 061	2 061	2 061	–	–	20 323
Financial assets – equity instruments at FVOCI	12	–	–	–	–	–	100 000	100 000
Derivative assets	46	295	280	–	–	–	–	575
Undiscounted assets		21 347 071	14 894 925	9 461 147	5 566 435	2 702 705	100 000	54 072 283
Adjustments for undiscounted assets[2]		(7 372 826)	(4 873 705)	(3 606 278)	(2 981 480)	(2 234 889)	–	(21 069 178)
Discounted assets								
Loan impairment provision[2]	9	(1 727 637)	(1 241 675)	(707 546)	(311 452)	(81 542)	–	(4 069 852)
Total discounted assets		12 246 608	8 779 545	5 147 323	2 273 503	386 274	100 000	28 933 253
Undiscounted liabilities								
Retail deposits	19	5 463 116	3 674 859	2 892 162	1 992 661	–	–	14 022 798
Wholesale funding	19	1 752 081	1 077 257	97 809	52 142	55 374	–	3 034 663
Trade and other payables	20	167 142	60 944	51 421	18 496	7 351	–	305 354
Derivative liability	46	5 316	–	–	–	–	–	5 316
Provisions	23	54 301	30 698	2 002	2 002	2 002	–	91 005
Undiscounted Liabilities		7 441 956	4 843 758	3 043 394	2 065 301	64 727	–	17 459 136
Adjustments for undiscounted liabilities		(1 032 031)	(734 705)	(543 701)	(451 503)	(4 115)	–	(2 766 055)
Total discounted liabilities		6 409 925	4 109 053	2 499 693	1 613 798	60 612	–	14 693 081
Net liquidity excess/(shortfall)[1]		12 177 478	8 809 492	5 710 207	3 189 682	2 556 436	100 000	32 543 295
Cumulative liquidity excess/(shortfall)		25 678 628	34 488 120	40 198 327	43 388 009	45 944 445	46 044 445	46 044 445

[1] *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*

[2] *Comparatives previously did not disclose stage 3 loans more than 3 months in arrears and with legal statuses (including debt review) as non-contractual in the maturity analysis but rather based on the original contractual terms of the loans. In the current year the maturity analysis was amended to rather reflect these loans as non-contractual considering that they are subject to legal collection processes. The comparative numbers were also reclassified. In addition to this, the gross carrying amount as well as the ECL have been grossed up by R1 016 million at 28 February 2019. Refer to note 9, footnote 3 on page 191 for details of the change in presentation. The resultant impact of the 2 changes on the prior year disclosure was as follows: Loans and advances to clients – retail personal decreased by R578 million in total, comprising an increase of R1 016 million for the gross up, less R1 594 million for accrued future interest previously included for loans now transferred to the non-contractual bucket. The maturity buckets decreased as follows: R1 914 million in demand to 1 month, R349 million in 1 to 3 months, R1 245 million in 3 months to 1 year, R1 221 million in 1 to 2 years, R743 million in 2 to 3 years, R426 million in 3 to 4 years, R170 million in 4 to 5 years and R75 million in 5 to 10 years. The impact of the above on the adjustments for undiscounted asset line in total was a decline of R1 594 million, comprising accrued future interest previously included for loans now transferred to the non-contractual bucket. The maturity buckets reflect a decrease of R152 million in demand to 1 month, R107 million in 1 month to 3 months, R418 million in 3 months to 1 year, R386 million in 1 to 2 years, R234 million in 2 to 3 years, R162 million in 3 to 4 years, R80 million in 4 to 5 years and R55 million in 5 to 10 years. The impact on the loan impairment provision in total was an increase of R1 016 million for the gross up. The maturity buckets reflect a decrease of R2 602 million in demand to 1 month, R213 million in 1 month to 3 months, R542 million in 3 months to 1 year, R539 million on 1 to 2 years, R166 million in 2 to 3 years, R29 million in 3 to 4 years and an increase of R35 million in 4 to 5 years and R29 million in 5 to 10 years. The impact of the above changes resulted in a change in the total discounted assets, net liquidity excess/(shortfall) and cumulative liquidity excess/(shortfall) buckets.*

Maturities of financial assets and financial liabilities

		COMPANY						
R'000	**Notes**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**5 to 10 years**	**More than 10 years**	**Total**
2020								
Undiscounted assets								
Loans and advances – Retail	9	23 820 821	16 803 046	10 840 862	7 002 923	3 579 895	–	62 047 547
Other receivables	10	22 794	6 059	6 059	2 347	–	–	37 259
Financial assets – equity instruments at FVOCI	11	–	–	–	–	–	100 000	100 000
Derivative assets	45	2 870	–	–	–	–	–	2 870
Undiscounted assets		23 846 485	16 809 105	10 846 921	7 005 270	3 579 895	100 000	62 187 676
Adjustments for undiscounted assets		(7 993 891)	(5 485 651)	(4 013 134)	(3 730 186)	(2 980 920)	–	(24 203 782)
Discounted assets								
Loan impairment provision	9	(1 901 585)	(1 353 399)	(801 767)	(382 798)	(120 811)	–	(4 560 360)
Total discounted assets		13 951 009	9 970 055	6 032 020	2 892 286	478 164	100 000	33 423 534
Undiscounted liabilities								
Deposits	19	6 942 349	3 638 890	2 329 142	2 584 752	17	–	15 495 150
Wholesale funding	19	1 114 931	136 912	92 056	565 440	–	–	1 909 339
Trade and other payables	20	132 693	71 461	33 892	14 548	5 432	–	258 026
Lease liability	21	528 892	520 735	509 770	489 031	1 448 271	89 691	3 586 390
Derivative liability	46	7 753	4 144	1 712	64	–	–	13 673
Provisions	23	65 992	39 113	2 349	2 347	–	–	109 801
Undiscounted Liabilities		8 792 610	4 411 255	2 968 921	3 656 182	1 453 720	89 691	21 372 379
Adjustments for undiscounted liabilities		(1 108 908)	(791 521)	(649 656)	(715 108)	(748 328)	(54 414)	(4 067 935)
Total discounted liabilities		7 683 702	3 619 734	2 319 265	2 941 074	705 392	35 277	17 304 444
Net liquidity excess/(shortfall)[(1)]		13 152 290	11 044 451	7 076 233	2 966 290	2 005 364	10 309	36 254 937
Cumulative liquidity excess/ (shortfall)		21 057 560	32 102 011	39 178 244	42 144 534	44 149 898	44 160 207	44 160 207

34. Financial risk management (continued)

34.5 Liquidity risk (continued)

Maturities of financial assets and financial liabilities

		COMPANY						
R'000	Notes	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2019								
Undiscounted assets								
Loans and advances to clients – retail personal[2]	9	21 332 636	14 892 584	9 459 086	5 564 374	2 702 705	–	53 951 385
Other receivables	10	14 140	2 061	2 061	2 061	–	–	20 323
Financial assets – equity instruments at FVOCI	11	–	–	–	–	–	100 000	100 000
Derivative assets	45	295	280	–	–	–	–	575
Undiscounted assets		21 347 071	14 894 925	9 461 147	5 566 435	2 702 705	100 000	54 072 283
Adjustments for undiscounted assets[2]		(7 372 826)	(4 873 705)	(3 606 278)	(2 981 480)	(2 234 889)	–	(21 069 178)
Discounted assets								
Loan impairment provision[2]	9	(1 727 637)	(1 241 675)	(707 546)	(311 452)	(81 542)	–	(4 069 852)
Total discounted assets		12 246 608	8 779 545	5 147 323	2 273 503	386 274	100 000	28 933 253
Undiscounted liabilities								
Deposits	19	5 463 116	3 674 859	2 892 162	1 992 661	–	–	14 022 798
Wholesale funding	19	1 752 081	1 077 257	97 809	52 142	55 374		3 034 663
Trade and other payables	20	167 142	60 944	51 421	18 496	7 351	–	305 354
Derivative liability	45	5 316	–	–	–	–	–	5 316
Provisions	23	54 301	30 698	2 002	2 002	2 002	–	91 005
Undiscounted Liabilities		7 441 956	4 843 758	3 043 394	2 065 301	64 727	–	17 459 136
Adjustments for undiscounted liabilities		(1 032 031)	(734 705)	(543 701)	(451 503)	(4 115)	–	(2 766 055)
Total discounted liabilities		6 409 925	4 109 053	2 499 693	1 613 798	60 612	–	14 693 081
Net liquidity excess/(shortfall)[1]		12 177 478	8 809 492	5 710 207	3 189 682	2 556 436	100 000	32 543 295
Cumulative liquidity excess/ (shortfall)		25 678 628	34 488 120	40 198 327	43 388 009	45 944 445	46 044 445	46 044 445

(1) *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*

(2) *Comparatives previously did not disclose stage 3 loans more than 3 months in arrears and with legal statuses (including debt review) as non-contractual in the maturity analysis but rather based on the original contractual terms of the loans. In the current year the maturity analysis was amended to rather reflect these loans as non-contractual considering that they are subject to legal collection processes. The comparative numbers were also reclassified. In addition to this, the gross carrying amount as well as the ECL have been grossed up by R1 016 million at 28 February 2019. Refer to note 9, footnote 3 on page 191 for details of the change in presentation. The resultant impact of the 2 changes on the prior year disclosure was as follows: Loans and advances to clients – retail personal decreased by R578 million in total, comprising an increase of R1 016 million for the gross up, less R1 594 million for accrued future interest previously included for loans now transferred to the non-contractual bucket. The maturity buckets decreased as follows: R1 914 million in demand to 1 month, R349 million in 1 to 3 months, R1 245 million in 3 months to 1 year, R1 221 million in 1 to 2 years, R743 million in 2 to 3 years, R426 million in 3 to 4 years, R170 million in 4 to 5 years and R75 million in 5 to 10 years. The impact of the above on the adjustments for undiscounted asset line in total was a decline of R1 594 million, comprising accrued future interest previously included for loans now transferred to the non-contractual bucket. The maturity buckets reflect a decrease of R152 million in demand to 1 month, R107 million in 1 month to 3 months, R418 million in 3 months to 1 year, R386 million in 1 to 2 years, R234 million in 2 to 3 years, R162 million in 3 to 4 years, R80 million in 4 to 5 years and R55 million in 5 to 10 years. The impact on the loan impairment provision in total was an increase of R1 016 million for the gross up. The maturity buckets reflect a decrease of R2 602 million in demand to 1 month, R213 million in 1 month to 3 months, R542 million in 3 months to 1 year, R539 million on 1 to 2 years, R166 million in 2 to 3 years, R29 million in 3 to 4 years and an increase of R35 million in 4 to 5 years and R29 million in 5 to 10 years. The impact of the above changes resulted in a change in the total discounted assets, net liquidity excess/(shortfall) and cumulative liquidity excess/(shortfall) buckets.*

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

GROUP

R'000	Notes	At fair value through profit and loss		At amortised cost		
		Held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total
2020						
Interest income	27	–	–	17 039 818	–	17 039 818
Interest expense	27	–	–	–	(5 679 848)	(5 679 848)
Loan fee income and net insurance income	27	–	–	1 960 432	–	1 960 432
Loan fee expense	27	–	–	(90 186)	–	(90 186)
Transaction fee income	27	–	–	–	10 262 549	10 262 549
Transaction fee expense		–	–	–	(2 846 923)	(2 846 923)
Foreign currency income		38 691	–	–	–	38 691
Credit impairment losses	29	–	–	(4 473 670)	–	(4 473 670)
2019						
Interest income	27	–	–	15 499 664	–	15 499 664
Interest expense	27	–	–	–	(4 509 549)	(4 509 549)
Loan fee income	27	–	–	1 726 447	–	1 726 447
Loan fee expense	27	–	–	(219 768)	–	(219 768)
Transaction fee income	27	–	–	–	8 473 959	8 473 959
Transaction fee expense		–	–	–	(2 009 669)	(2 009 669)
Credit impairment losses	29	–	–	(4 450 245)	–	(4 450 245)

COMPANY

R'000	Notes	At fair value through profit and loss		At amortised cost		
		Deemed held for trading	Designated at initial recognition	Financial assets	Financial liabilities	Total
2020						
Interest income	27	–	–	16 579 870	–	16 579 870
Interest expense	27	–	–	–	(5 444 434)	(5 444 434)
Loan fee income and net insurance income	27	–	–	1 956 294	–	1 956 294
Loan fee expense	27	–	–	(90 186)	–	(90 186)
Transaction fee income	27	–	–	–	10 094 767	10 094 767
Transaction fee expense		–	–	–	(2 735 988)	(2 735 988)
Credit impairment losses	29	–	–	(4 360 286)	–	(4 360 286)
2019						
Interest income	27	–	–	15 499 664	–	15 499 664
Interest expense	27	–	–	–	(4 509 549)	(4 509 549)
Loan fee income	27	–	–	1 726 447	–	1 726 447
Loan fee expense	27	–	–	(219 768)	–	(219 768)
Transaction fee income	27	–	–	–	8 473 959	8 473 959
Transaction fee expense		–	–	–	(2 009 669)	(2 009 669)
Credit impairment losses	29	–	–	(4 450 245)	–	(4 450 245)

34. Financial risk management (continued)

34.7 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

Determination on fair values and valuation processes

Fair values are market-based, calculated first with reference to observable inputs available in the market, then less observable and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistent with the unit of account used for the measurement of the asset or liability in the statement of financial position and income statement and assume an orderly market on a going concern basis.

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

Hierarchy of fair value of financial instruments

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

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

		GROUP							
		At fair value through profit and loss		At fair value through other compre-hensive income	At amortised cost				
R'000	Notes	Financial assets	As hedging instrument	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2020									
Financial assets									
Cash, cash equivalents and money market funds	5	–	–	–	42 217 371	–	42 217 371	42 217 371	[2]
Financial assets at FVTPL	7	1 504 262			–	–	1 504 262	1 504 262	Level 2
Financial investments	6	–	–	–	17 207 094	–	17 207 094	17 207 094	Level 2
Financial assets – equity instruments at FVOCI	12	–	–	101 139	–	–	101 139	101 139	Level 3
Term deposit investments[3]	8	–	–	–	–	–	–	–	[2]
Net loans and advances – retail	9	–	–	–	52 011 683	–	52 011 683	52 246 075	Level 3
Net loans and advances – business other	9	–	–	–	4 708 370	–	4 708 370	4 708 370	Level 3
Net loans and advances – mortgage	9	–	–	–	5 321 506	–	5 321 506	5 321 506	Level 3
Net insurance receivable	11	–	–	–	217 423	–	217 423	217 423	[2]
Other receivables	10	–	–	–	1 807 324	–	1 807 324	1 807 324	[2]
Derivative assets[1]	45	–	37 440	–	–	–	37 440	37 440	Level 2
Group loans receivable	13	–	–	–	15 257	–	15 257	15 257	[2]
Financial liabilities									
Deposits and bonds	19	–	–	–	–	103 342 776	103 342 776	103 762 600	[2]
– Listed bonds		–	–	–	–	2 989 725	2 989 725	3 020 331	Level 2
– Other fixed-term institutional deposits		–	–	–	–	703 944	703 944	714 040	Level 2
– Deposits		–	–	–	–	99 649 107	99 649 107	100 028 229	Level 2
Derivative liabilities[1]	45	–	61 034	–	–	–	61 034	61 034	Level 2
Trade and other payables[2][4]	20	–		–	–	1 305 959	1 305 959	1 305 959	[2]
Group loans payable	24	–	–	–	–	70 251	70 251	70 251	[2]
2019									
Financial assets									
Cash, cash equivalents and money market funds	5		–	–	29 130 717	–	29 130 717	29 130 717	[2]
Financial investments	6		–	–	10 732 394	–	10 732 394	10 732 394	[2]
Financial assets – equity instruments at FVOCI	12		–	100 000	–	–	100 000	100 000	Level 3
Term deposit investments[3]	8		–	–	9 331 297	–	9 331 297	9 331 297	[2]
Net loans and advances	9		–	–	44 509 305	–	44 509 305	44 702 714	Level 3
Net insurance receivable	11		–	–	236 391	–	236 391	236 391	Level 2
Other receivables	10		–	–	1 416 026	–	1 416 026	1 416 026	[2]
Derivative assets[1]	45		479	–		–	479	479	Level 2
Group loans receivable	13		–	–	331 465	–	331 465	331 465	[2]
Financial liabilities									[2]
Deposits and bonds	19		–	–	–	76 443 613	76 443 613	76 770 498	
– Listed bonds			–	–	–	4 074 427	4 074 427	4 148 126	Level 2
– Other fixed-term institutional deposits			–	–	–	1 003 901	1 003 901	1 017 918	Level 2
– Deposits			–	–	–	71 365 285	71 365 285	71 604 454	Level 2
Derivative liabilities	45		14 704	–	–	–	14 704	14 704	Level 2
Trade and other payables[2][4]	20			–	–	1 039 581	1 039 581	1 039 581	[2]

(1) *Cash flow and economic hedges.*
(2) *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*
(3) *Term deposit investments are short term.*
(4) *Comparatives previously included accruals, share options and share appreciation rights. In the current year this was amended. The comparative figures were also reclassified. The comparatives previously included R848 million relating to accruals and R655 million relating to share options and share appreciation rights.*

34. Financial risk management (continued)

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

COMPANY

R'000	Notes	At fair value through profit and loss		At fair value through other comprehensive income	At amortised cost				
		Financial assets	As hedging instrument	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2020									
Financial assets									
Cash, cash equivalents and money market funds	5		–	–	40 147 320	–	40 147 320	40 147 320	(2)
Financial assets at FVTPL	7	1 504 262	–		–	–	1 504 262	1 504 262	Level 2
Financial investments	6		–	–	16 329 710	–	16 329 710	16 329 710	Level 2
Financial assets – equity instruments at FVOCI	12			100 000			100 000	100 000	Level 3
Net loans and advances – Retail	9		–	–	52 011 683	–	52 011 683	52 246 075	Level 3
Net insurance receivable	11		–	–	217 423	–	217 423	217 423	(2)
Other receivables	10		–	–	1 389 332	–	1 389 332	1 389 332	(2)
Derivative assets(1)	45		5 713	–	–	–	5 713	5 713	Level 2
Group loans receivable	13		–	–	215 257	–	215 257	215 257	(2)
Financial liabilities									
Deposits and bonds	19		–	–	–	90 833 216	90 833 216	91 253 039	
– Listed senior bonds			–	–	–	2 989 725	2 989 725	3 020 331	Level 2
– Other fixed-term institutional deposits and wholesale funding			–	–	–	346 561	346 561	356 656	Level 2
– Deposits			–	–	–	87 496 930	87 496 930	87 876 052	Level 2
Derivative liabilities(1)	45		31 029	–	–	–	31 029	31 029	Level 2
Trade and other payables(2)(4)	20		–	–	–	946 541	946 541	946 541	(2)
Group loans payable	24		–	–	–	2 182 864	2 182 864	2 182 864	(2)
2019									
Financial assets									
Cash, cash equivalents and money market funds	5		–	–	29 130 717	–	29 130 717	29 130 717	(2)
Financial investments	6		–	–	10 732 394	–	10 732 394	10 732 394	(2)
Financial assets – equity instruments at FVOCI	12			100 000			100 000	100 000	Level 3
Term deposit investments(3)	8		–	–	9 331 297	–	9 331 297	9 331 297	(2)
Net loans and advances	9		–	–	44 509 305	–	44 509 305	44 702 714	Level 3
Net insurance receivable	11		–	–	236 391	–	236 391	236 391	(2)
Other receivables	10		–	–	1 416 026	–	1 416 026	1 416 026	(2)
Derivative assets(1)	45		479	–		–	479	479	Level 2
Group loans receivable	13		–	–	331 465	–	331 465	331 465	(2)
Financial liabilities									–
Deposits and bonds	19		–	–	–	76443613	76 443 613	76770498	(2)
– Listed bonds			–	–	–	4 074 427	4 074 427	4 148 126	Level 2
– Other fixed-term institutional deposits			–	–	–	1 003 901	1 003 901	1 017 918	Level 2
– Retail deposits			–	–	–	71 365 285	71 365 285	71 604 454	Level 2
Derivative liabilities(1)	45		14 704	–	–		14 704	14 704	
Trade and other payables(2)(4)	20			–	–	1 039 581	1 039 581	1 039 581	(2)

(1) *Cash flow hedges.*
(2) *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*
(3) *Term deposit investments are short term.*
(4) *Comparatives previously included accrual, share options and share appreciation rights. In the current year this was amended. The comparative figures previously included R848 million relating to accruals and R655 million relating to share options and share appreciation rights.*

34.8 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.

Item and description	Valuation technique
Retail loans and advances	The expected present value technique was applied, discounting probability weighted cash flows at a discount rate that ensures that no day-1 fair value gain or loss arises on new loans. This considers that loans are granted at market related rates at the time of the initiation. 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 discount 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 estimation of these cash flows are set out in note 3.2.3.
Business loans and advances	The fair value of loans and advances that are carried at amortised cost approximates the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of credit quality through the application of the credit impairment models.
Financial assets at FVTPL	Financial assets (Income funds) with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market inputs with the main assumptions being market input, uplifted with inflation. These instruments are classified as level 2 as the markets that they are quoted on are not considered to be active.
Derivative assets and liabilities	Derivatives, both assets and liabilities, were valued using the income approach. Derivatives comprise interest rate swaps and forward foreign exchange contracts (FECs). 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. The fair value of publicly traded derivatives and securities is based on quoted market values at the reporting date.
Deposits and bonds with call features	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 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 fixed-term institutional deposits	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 spread 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.
Secured funding	Are carried at amortised cost and approximate the fair value reported as they bear variable rates of interest.

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

35. Retirement benefits

The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined contribution fund, is administered independently of the bank and is subject to the Pension Funds Act, Act 24 of 1956. The amount contributed is included in salaries and bonus cost as per note 30.	289 094	227 894	289 094	227 894

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 group has no exposure in respect of any post-retirement benefits payable other than these set out in note 22.

36. Related-party transactions

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Holding company				
Dividends				
Ordinary dividend received/paid	2 168 006	2 015 551	2 168 006	2 015 551
Preference dividend paid	6 913	8 785	6 913	8 785
Capitec Bank Holdings Limited (holding company)	2 174 919	2 024 336	2 174 919	2 024 336
Management fees paid – Capitec Bank Holdings Limited (holding company)	2 258	2 201	2 258	2 201
Parties with significant shareholding				
Income statement charge				
Interest paid	8 466	8 645	8 466	8 645
Brokers' fees – PSG Group and subsidiaries[(1)]	180	248	180	248
PSG Group and subsidiaries[(1)]	8 646	8 893	8 646	8 893
Statement of financial position balance				
Listed senior bonds	61 323	72 238	61 323	72 238
Unlisted negotiable instruments	43 267	71 285	43 267	71 285
PSG Group and subsidiaries[(1)]	104 590	143 523	104 590	143 523
Loans due from/(to):				
Capitec Bank Holdings Share Trust	(4 430)	4 716	(4 430)	4 716
Capitec Properties Proprietary Limited (fellow subsidiary)	(65 821)	313 284	(65 821)	313 284
Capitec Bank Holdings Limited (holding company)	15 257	13 461	15 257	13 461
Mercantile Bank Limited (subsidiary)	–	–	(1 912 613)	–
Guarantee:				
Capitec Properties Proprietary Limited (fellow subsidiary)	161 000	161 000	161 000	161 000
Interest paid:				
Mercantile Bank Limited	–	–	14 888	–
Purchase of assets under construction (land and buildings):				
Capitec Bank Properties Proprietary Limited[(4)]	779 962	–	779 962	–

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Key management				
Key management employees' remuneration				
Salaries and other short-term benefits	100 921	80 158	90 349	80 158
Post-employment benefits	2 729	2 998	2 729	2 998
Share-based payments	126 750	411 453	126 750	411 453
Key management compensation[2]	230 400	494 609	219 828	494 609
Retail deposits from directors and other key management employees[3]				
Deposits at the beginning of the year	17 239	8 574	17 239	8 574
Interest earned during the year	966	743	966	743
(Withdrawals)/deposits made during the year	(600)	7 922	(600)	7 922
Deposits at the end of the year	17 605	17 239	17 605	17 239

[1] *Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth. PSG Capital is the corporate advisor and sponsor of Capitec Bank Limited.*
[2] *Key management is considered to be the members of the executive management committee, excluding development members, and key management personnel of Mercantile Bank Limited (CEO). The executive directors and key management are the prescribed officers of the company.*
[3] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*
[4] *Purchase of the assets under construction was settled through the intercompany loan (R292 million).*
[5] *Details of the purchase of Imvelo Ventures are disclosed in note 14.*

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 and non-participating preference shares.

36. Related-party transactions (continued)

Directors' interest in share incentive scheme – options

Directors	Maturity date[1]	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
2020								
AP du Plessis	1 Apr 19	10 Apr 13	201.40	4 375	(4 375)	1 290.20	28 Mar 19	–
(direct beneficial)		15 Apr 14	196.43	5 937	(5 937)	1 290.20	28 Mar 19	–
		1 Apr 15	371.88	17 363	(17 363)	1 290.20	28 Mar 19	–
		1 Apr 16	473.05	5 605	(5 605)	1 290.20	28 Mar 19	–
	29 Mar 20	1 Apr 17	705.93	3 929	–	–	–	3 929
	1 Apr 20	1 Apr 15	371.88	17 363	–	–	–	17 363
		1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 21	28 Mar 18	881.76	3 781	–	–	–	3 781
	29 Mar 21	1 Apr 17	705.93	3 929	–	–	–	3 929
	1 Apr 21	1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 22	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 22	1 Apr 17	705.93	3 928	–	–	–	3 928
		29 Mar 19	1 175.01	–	3 177	–	–	3 177
	1 Apr 22	1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 23	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 23	1 Apr 17	705.93	3 928	–	–	–	3 928
		29 Mar 19	1 175.01	–	3 176	–	–	3 176
	28 Mar 24	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 24	29 Mar 19	1 175.01	–	3 176	–	–	3 176
	29 Mar 25	29 Mar 19	1 175.01	–	3 176	–	–	3 176
				98 293	(20 575)			77 718
GM Fourie	1 Apr 19	10 Apr 13	201.40	4 375	(4 375)	1 370.44	15 Apr 19	–
(direct beneficial)		15 Apr 14	196.43	4 583	(4 583)	1 370.44	15 Apr 19	–
		1 Apr 15	371.88	22 872	(22 872)	1 370.44	15 Apr 19	–
		1 Apr 16	473.05	9 170	(9 170)	1 370.44	15 Apr 19	–
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	29 Mar 20	1 Apr 17	705.93	6 377	–	–	–	6 377
	1 Apr 20	1 Apr 15	371.88	22 871	–	–	–	22 871
		1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 21	28 Mar 18	881.76	5 740	–	–	–	5 740
	29 Mar 21	1 Apr 17	705.93	6 377	–	–	–	6 377
	1 Apr 21	1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 22	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 22	1 Apr 17	705.93	6 377	–	–	–	6 377
		29 Mar 19	1 175.01	–	5 107	–	–	5 107
	1 Apr 22	1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 23	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 23	1 Apr 17	705.93	6 376	–	–	–	6 376
		29 Mar 19	1 175.01	–	5 107	–	–	5 107
	28 Mar 24	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 24	29 Mar 19	1 175.01	–	5 107	–	–	5 107
	29 Mar 25	29 Mar 19	1 175.01	–	5 107	–	–	5 107
				146 717	(20 572)			126 145

Directors' interest in share incentive scheme – options (continued)

Directors	Maturity date[1]	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
2020								
NS Mashiya	1 Nov 18	2 Nov 15	539.88	4 687	(4 687)	1 373.63	10 Apr 19	–
(direct beneficial)	1 Nov 18	2 Nov 15	539.88	4 188	(4 188)	1 370.50	3 Apr 19	–
	1 Apr 19	1 Apr 16	473.05	1 948	(1 948)	1 147.18	5 Aug 19	–
	1 Nov 19	2 Nov 15	539.88	8 875	(8 875)	1 455.29	13 Nov 19	–
	29 Mar 20	1 Apr 17	705.93	1 354	–	–	–	1 354
	1 Apr 20	1 Apr 16	473.05	1 948	–	–	–	1 948
	1 Nov 20	2 Nov 15	539.88	8 875	–	–	–	8 875
	28 Mar 21	28 Mar 18	881.76	1 188	–	–	–	1 188
	29 Mar 21	1 Apr 17	705.93	1 354	–	–	–	1 354
	1 Apr 21	1 Apr 16	473.05	1 948	–	–	–	1 948
	28 Mar 22	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 22	1 Apr 17	705.93	1 353	–	–	–	1 353
		29 Mar 19	1 175.01	–	878	–	–	878
	1 Apr 22	1 Apr 16	473.05	1 947	–	–	–	1 947
	28 Mar 23	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 23	1 Apr 17	705.93	1 353	–	–	–	1 353
		29 Mar 19	1 175.01	–	877	–	–	877
	28 Mar 24	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 24	29 Mar 19	1 175.01	–	877	–	–	877
	29 Mar 25	29 Mar 19	1 175.01	–	877	–	–	877
				44 579	(16 189)			28 390
Total				289 589	(57 336)			232 253

[1] *After the maturity date the director has 6 months to exercise the share options.*

36. Related-party transactions (continued)

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

				Opening balance	(SARs exercised)/SARs granted			Closing balance
Directors	Maturity date[1]	Issue date	SARs exercise price R	Number of SARs	Number of SARs	Market price R	Exercise date	Number of SARs
2020								
AP du Plessis	1 Apr 19	10 Apr 13	201.40	4 375	(4 375)	1 365.55	8 Apr 19	–
(direct beneficial)		15 Apr 14	0.01	2 017	(2 017)	1 365.55	8 Apr 19	–
		1 Apr 15	0.01	5 903	(5 903)	1 365.55	8 Apr 19	–
		1 Apr 16	473.05	5 605	(5 605)	1 365.55	8 Apr 19	–
	29 Mar 20	1 Apr 17	705.93	3 929	–	–	–	3 929
	1 Apr 20	1 Apr 15	0.01	5 903	–	–	–	5 903
		1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 21	28 Mar 18	881.76	3 781	–	–	–	3 781
	29 Mar 21	1 Apr 17	705.93	3 929	–	–	–	3 929
	1 Apr 21	1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 22	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 22	1 Apr 17	705.93	3 928	–	–	–	3 928
		29 Mar 19	1 175.01	–	3 177	–	–	3 177
	1 Apr 22	1 Apr 16	473.05	5 605	–	–	–	5 605
	28 Mar 23	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 23	1 Apr 17	705.93	3 928	–	–	–	3 928
		29 Mar 19	1 175.01	–	3 176	–	–	3 176
	28 Mar 24	28 Mar 18	881.76	3 780	–	–	–	3 780
	29 Mar 24	29 Mar 19	1 175.01	–	3 176	–	–	3 176
	29 Mar 25	29 Mar 19	1 175.01	–	3 176	–	–	3 176
				71 453	(5 195)			66 258
GM Fourie	1 Apr 19	10 Apr 13	201.40	4 375	(4 375)	1 384.00	2 Apr 19	–
(direct beneficial)		15 Apr 14	0.01	1 557	(1 557)	1 384.00	2 Apr 19	–
		1 Apr 15	0.01	7 776	(7 776)	1 384.00	2 Apr 19	–
		1 Apr 16	473.05	9 170	(9 170)	1 384.00	2 Apr 19	–
	1 Nov 19	1 Nov 13	209.83	6 875	–	–	–	6 875
	29 Mar 20	1 Apr 17	705.93	6 377	–	–	–	6 377
	1 Apr 20	1 Apr 15	0.01	7 776	–	–	–	7 776
		1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 21	28 Mar 18	881.76	5 740	–	–	–	5 740
	29 Mar 21	1 Apr 17	705.93	6 377	–	–	–	6 377
	1 Apr 21	1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 22	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 22	1 Apr 17	705.93	6 377	–	–	–	6 377
		29 Mar 19	1 175.01	–	5 107	–	–	5 107
	1 Apr 22	1 Apr 16	473.05	9 169	–	–	–	9 169
	28 Mar 23	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 23	1 Apr 17	705.93	6 376	–	–	–	6 376
		29 Mar 19	1 175.01	–	5 107	–	–	5 107
	28 Mar 24	28 Mar 18	881.76	5 739	–	–	–	5 739
	29 Mar 24	29 Mar 19	1 175.01	–	5 107	–	–	5 107
	29 Mar 25	29 Mar 19	1 175.01	–	5 107	–	–	5 107
				113 500	(2 450)			111 050

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

				Opening balance	(SARs exercised)/SARs granted			Closing balance
Directors	Maturity date[1]	Issue date	SARs exercise price R	Number of SARs	Number of SARs	Market price R	Exercise date	Number of SARs
NS Mashiya	1 Nov 18	2 Nov 15	0.01	3 000	(3 000)	1 370.50	3 Apr 19	–
(direct beneficial)	1 Apr 19	1 Apr 16	473.05	1 948	(1 948)	1 147.18	5 Aug 19	–
	1 Nov 19	2 Nov 15	0.01	3 000	(3 000)	1 455.29	13 Nov 19	–
	29 Mar 20	1 Apr 17	705.93	1 354	–	–	–	1 354
	1 Apr 20	1 Apr 16	473.05	1 948	–	–	–	1 948
	1 Nov 20	2 Nov 15	0.01	3 000	–	–	–	3 000
	28 Mar 21	28 Mar 18	881.76	1 188	–	–	–	1 188
	29 Mar 21	1 Apr 17	705.93	1 354	–	–	–	1 354
	1 Apr 21	1 Apr 16	473.05	1 948	–	–	–	1 948
	28 Mar 22	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 22	1 Apr 17	705.93	1 353	–	–	–	1 353
		29 Mar 19	1 175.01	–	878	–	–	878
	1 Apr 22	1 Apr 16	473.05	1 947	–	–	–	1 947
	28 Mar 23	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 23	1 Apr 17	705.93	1 353	–	–	–	1 353
		29 Mar 19	1 175.01	–	877	–	–	877
	28 Mar 24	28 Mar 18	881.76	1 187	–	–	–	1 187
	29 Mar 24	29 Mar 19	1 175.01	–	877	–	–	877
	29 Mar 25	29 Mar 19	1 175.01	–	877	–	–	877
				26 954	(4 439)			22 515
Total				211 907	(12 084)			199 823

[1] *After maturity date the director has 6 months to exercise the share appreciation rights.*

36. Related-party transactions (continued)

Directors' remuneration

The total share option expense relating to directors amounted to R31 298 726 (2019: R115 240 780) and SARs expense amounted to R32 147 400 (2019: R82 105 694).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2020						
Executive[1]	9 967	78	3 975	–	14 020	2 240
AP du Plessis	12 804	58	5 113	–	17 975	3 601
GM Fourie	4 605	47	1 830	–	6 482	619
NS Mashiya						
Non-executive						
MS du Pré le Roux	–	–	–	520	520	–
SL Botha (chairman)[3]	–	–	–	1 875	1 875	–
LA Dlamini[4]	–	–	–	293	293	–
K Makwane	–	–	–	850	850	–
DP Meintjes	–	–	–	738	738	–
JD McKenzie	–	–	–	1 550	1 550	–
NS Mjoli-Mncube[5]	–	–	–	113	113	–
PJ Mouton	–	–	–	720	720	–
CA Otto	–	–	–	870	870	–
R Stassen[5]	–	–	–	625	625	–
JP Verster	–	–	–	1 100	1 100	–
	27 376	183	10 918	9 254	47 731	6 460
2019						
Executive[1]						
AP du Plessis	9 106	74	3 647	–	12 827	3 805
GM Fourie	11 646	30	4 651	–	16 327	5 777
NS Mashiya	4 314	44	1 718	–	6 076	1 195
Non-executive						
MS du Pré le Roux	–	–	–	325	325	–
LA Dlamini	–	–	–	660	660	–
K Makwane	–	–	–	445	445	–
DP Meintjes[2]	–	–	–	84	84	–
JD McKenzie	–	–	–	1 165	1 165	–
NS Mjoli-Mncube	–	–	–	325	325	–
PJ Mouton	–	–	–	685	685	–
CA Otto	–	–	–	685	685	–
R Stassen (chairman)	–	–	–	1 390	1 390	–
JP Verster	–	–	–	795	795	–
	25 066	148	10 016	6 559	41 789	10 777

(1) *The executive directors are the prescribed officers of the company.*
(2) *Appointed on 28 November 2018.*
(3) *Appointed on 1 June 2019.*
(4) *Resigned on 30 June 2019.*
(5) *Retired on 31 May 2019.*

Prescribed officers' remuneration

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year on reporting date
2020					
JC Carstens	**5 045**	**54**	**2 012**	**7 111**	**850**
W De Bruyn	**7 041**	**61**	**2 800**	**9 902**	**1 262**
KR Kumbier	**1 392**	**280**	**1 232**	**2 904**	**483**
HAJ Lourens	**5 817**	**48**	**2 528**	**8 393**	**1 140**
NST Motjuwadi	**3 401**	**40**	**1 353**	**4 794**	**458**
A Olivier	**5 172**	**66**	**2 408**	**7 646**	**1 085**
L Venter	**5 286**	**55**	**2 101**	**7 442**	**947**
F Viviers	**3 432**	**192**	**1 374**	**4 998**	**465**
	36 586	**796**	**15 808**	**53 190**	**6 690**
2019					
JC Carstens	4 591	48	1 846	6 485	1 651
W de Bruyn	6 534	74	2 617	9 225	2 730
HAJ Lourens	5 819	61	2 330	8 210	2 431
NST Motjuwadi	3 163	39	1 259	4 461	876
A Olivier	5 646	62	2 250	7 958	2 124
L Venter	4 953	53	1 973	6 979	1 764
F Viviers	3 033	95	1 227	4 355	1 097
	33 739	432	13 502	47 673	12 673

The total share option expense relating to prescribed officers above amounted to R30 911 292 (2019: R122 553 670) and SARs expense amounted to R32 344 367 (2019: R91 444 987). This expense includes the movement on all tranches.

Financial assistance amounting to R1 290 877 (2019: Rnil) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at reporting date amounted to R1 312 178 (2019: R5 379 395).

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

37. Notes to statements of cash flows

37.1 Cash flow from operations

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Net profit before tax and equity accounted earnings	8 013 893	6 850 828	8 010 692	6 850 828
Deduct interest income	(17 039 818)	(15 499 664)	(16 579 870)	(15 499 664)
Add back interest expenses	5 679 848	4 509 549	5 444 434	4 509 549
Add back interest received	16 969 604	15 254 118	16 509 842	15 254 118
Deduct interest paid	(5 675 538)	(4 518 607)	(5 442 696)	(4 518 607)
Adjusted for non-cash items				
Movement in provision for credit impairments[5]	2 092 808	4 665 328	2 044 084	4 665 328
Bad debts written off	5 171 393	1 268 257	5 105 697	1 268 257
ECL – non-loan book	(5 745)	3 016	(5 615)	3 016
Depreciation	511 949	436 505	502 672	436 505
Unrealised forex (gain)/loss	(8 084)	–	–	–
Depreciation IFRS 16	420 506	–	417 461	–
Amortisation	195 115	196 381	171 294	196 381
Loss on disposal of assets	46 527	9 616	58 635	9 616
Movements in assets and liabilities				
Loans and advances[1]	(14 591 884)	(9 481 906)	(14 588 598)	(9 481 906)
Financial investments (business banking)[4]	(77 554)	–	–	–
Other receivables	(30 625)	(924 923)	39 427	(924 923)
Net insurance receivable	18 968	8 812	18 968	8 812
Derivatives	(3 927)	(13 193)	(5 238)	(13 193)
Deposits and other wholesale funding[2]	16 368 391	13 041 447	15 959 866	13 041 447
Trade and other payables[3]	68 010	179 060	89 159	179 060
Movements in provisions	(24 265)	24 170	18 796	24 170
Share-based employee costs – options	(145 898)	113 716	(146 140)	113 716
Share-based employee costs – SARs	(81 777)	73 077	(82 019)	73 077
Cash flow from operations	17 871 898	16 195 587	17 540 851	16 195 587

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
[1] *Movement in loans and advances to clients*	(14 591 884)	(9 481 906)	(14 588 598)	(9 481 906)
Gross loans and advances opening balance	55 889 932	47 630 455	55 889 932	47 630 455
Gross loans and advances closing balance[5]	(75 781 738)	(55 889 932)	(65 436 394)	(55 889 932)
Acquisition of subsidiary	10 407 754	45 828	–	45 828
Movement in accrued interest	63 561	–	63 561	–
Bad debts written off	(5 171 393)	(1 268 257)	(5 105 697)	(1 268 257)
[2] *Deposits and wholesale funding*[6]	16 368 391	13 041 447	15 959 866	13 041 447
Movement in deposits	28 260 743	13 531 990	16 108 566	13 531 990
Acquisition of subsidiary	(11 743 652)	–	–	–
Movement in other wholesale funding	(148 700)	(490 543)	(148 700)	(490 543)
[3] *Trade and other payables*	68 010	179 059	89 159	179 059
Movement in trade and other payables	316 965	179 059	(58 259)	179 059
Acquisition of subsidiary	(396 373)	–	–	–
Movement in provision for straight-lining of leases	147 418	–	147 418	–
[4] *Financial investments*[7]	(77 554)	–	–	–
Movement in financial investments	(877 384)	–	–	–
Acquisition of subsidiary	786 290	–	–	–
Movement in accrued interest	13 549	–	–	–
Movement in ECL	(9)	–	–	–

[5] *The gross carrying amount as well as the ECL have been grossed up R1 016 million at 28 February 2019. Refer to footnote 3 on page 191 for details of the change in presentation.*

[6] *Relates to deposits and unlisted negotiable instruments and other wholesale funding. Refer to note 19.*

[7] *Relates to financial instruments held by the business bank.*

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
37.2 Lease liability cash flow	501 832	–	498 579	–
Lease liability 1 March 2019	2 749 924	–	2 749 924	–
New leases	275 855	–	274 997	–
Acquisition of subsidiary	14 971	–	–	–
IFRS 16 interest	255 929	–	255 547	–
Lease liability closing balance	(2 794 847)	–	(2 781 889)	–
Total cash flow lease liability	501 832	–	498 579	–
Portion included in operating activities	255 929	–	255 547	–
Portion included in financing activities	245 903	–	243 032	–

38. Income taxes paid

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Balance at the beginning of the year	(286 046)	(107 154)	(286 046)	(107 154)
Changes on initial application of IFRS 9	–	518 474	–	518 474
Acquisition of subsidiary	34 650	–	–	–
Income statement charge	1 794 643	1 718 767	1 791 510	1 718 767
Movement in deferred tax	247 763	402 826	240 934	402 826
Balance at the end of the year	(9 791)	286 046	(14 345)	286 046
Income tax paid	1 781 219	2 818 959	1 732 053	2 818 959

39. Dividends paid

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Balance at the beginning of the year	3 786	5 293	3 786	5 293
Ordinary dividend	2 168 006	2 015 551	2 168 006	2 015 551
Preference dividend	6 913	8 785	6 913	8 785
Balance at the end of the year	(3 386)	(3 786)	(3 386)	(3 786)
Dividends paid	2 175 319	2 025 843	2 175 319	2 025 843

R'000	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019

40. Commitments and contingent liabilities

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Property operating lease commitments				
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
Within 1 year	–	511 129	–	511 129
From 1 to 5 years	–	1 267 249	–	1 267 249
After 5 years	–	174 335	–	174 335
Total future cash flows	–	1 952 713	–	1 952 713
Straight-lining accrued	–	(147 418)	–	(147 418)
Future expenses	–	1 805 295	–	1 805 295
Capital commitments – approved by the board				
Contracted for				
Property and equipment	254 568	170 353	254 568	170 353
Intangible assets	93 668	116 017	93 668	116 017
Not contracted for				
Property and equipment	500 730	874 951	463 710	874 951
Intangible assets	128 369	439 616	128 369	439 616
	977 335	1 600 937	940 315	1 600 937
Loan commitments	1 825 309	911 740	1 521 927	911 740
Retail	1 521 927	911 740	1 521 927	911 740
Business	303 382	–	–	–
Guarantees – Business (property bonds)	639 292	–	–	–
	2 464 601	911 740	1 521 927	911 740
Contingent liabilities				
VAT	26 992	–	26 992	–

41. 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, and section 45(3)(a)(ii) of the Companies Act. A special resolution was passed at the annual general meeting on 31 May 2019 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated 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.

42. 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 group allows its employees to purchase shares in CBHL up to a value not exceeding 20% (2019: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2019: 20%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The group offers share options in CBHL to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 2 to 6 years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

Number	2020 Weighted average share price R	2020	2019
Options issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	506.44	639 501	777 342
Options granted	1 195.46	86 158	99 085
Options cancelled and/or lapsed	–	–	–
Options exercised	336.27	(234 954)	(236 926)
Balance at the end of the year	708.89	490 705	639 501
SARs issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	496.18	470 785	518 652
SARs granted	1 195.46	86 158	99 085
SARs cancelled and/or lapsed	–	–	–
SARs exercised	194.49	(129 478)	(146 952)
Balance at the end of the year	728.50	427 465	470 785

42. Share incentive scheme (continued)

Analysis of outstanding share options by year of maturity	2020 Weighted average strike price R	2020 Number	2019 Weighted average strike price R	2019 Number
Financial year				
2018/2019	–	–	482.31	10 750
2019/2020	209.83	8 750	324.78	232 954
2020/2021	459.69	152 860	459.69	152 860
2021/2022	661.94	84 687	661.94	84 687
2022/2023	770.15	106 218	661.93	84 673
2023/2024	917.73	70 349	795.16	48 809
2024/2025	1 027.67	46 307	881.76	24 768
2025/2026	1 195.46	21 534	–	–
	708.89	490 705	506.44	639 501

Number	2020	2019
Shares purchased/issued during the year	234 954	236 926
Shares utilised for settlement of options	(234 954)	(236 926)
Shares available for settlement of options	–	–
Settled in shares	(234 954)	(236 926)
Options exercised	(234 954)	(236 926)

Analysis of outstanding SARs by year of maturity	2020 Weighted average strike price R	2020 Number	2019 Weighted average strike price R	2019 Number
Financial year				
2018/2019	–	–	0.01	3 000
2019/2020	209.83	6 875	199.66	133 353
2020/2021	373.93	91 495	373.93	91 495
2021/2022	661.94	84 687	661.94	84 687
2022/2023	770.15	106 218	661.93	84 673
2023/2024	917.73	70 349	795.16	48 809
2024/2025	1 027.67	46 307	881.76	24 768
2025/2026	1 195.46	21 534	–	–
	728.50	427 465	496.18	470 785

43. 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(3)	Year maturing(4)	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion(2) %	Fair value R'000	Portion of term expired %	Liability at year-end R'000
2013/2014	209.83	2019/2020	6.3	8 750	9 539	100.0	9 539	100.0	9 539
2015/2016	371.88	2020/2021	6.3	84 070	78 073	100.0	78 073	98.2	76 662
2015/2016	539.88	2020/2021	6.5	8 875	6 847	100.0	6 847	86.5	5 921
2016/2017	473.05	2020/2021	6.3	33 260	27 541	100.0	27 541	97.7	26 919
2016/2017	–	2021/2022	6.3	33 257	27 923	100.0	27 923	78.2	21 837
2016/2017	–	2022/2023	6.3	33 253	28 254	100.0	28 254	65.2	18 415
2016/2017	576.29	2020/2021	6.7	2 603	1 901	100.0	1 901	91.8	1 745
2016/2017	–	2021/2022	6.3	2 603	1 945	100.0	1 945	73.4	1 428
2016/2017	–	2022/2023	6.3	2 603	1 991	100.0	1 991	61.2	1 219
2017/2018	705.93	2020/2021	6.3	24 052	14 341	100.0	14 341	97.3	13 947
2017/2018	–	2021/2022	6.3	24 050	14 989	100.0	14 989	72.9	10 928
2017/2018	–	2022/2023	6.3	24 046	15 672	100.0	15 672	58.3	9 138
2017/2018	–	2023/2024	6.5	24 040	16 414	100.0	16 414	48.6	7 975
2018/2019	881.76	2021/2022	6.3	24 777	11 599	100.0	11 599	64.1	7 429
2018/2019	–	2022/2023	6.3	24 771	12 783	100.0	12 783	48.0	6 142
2018/2019	–	2023/2024	6.5	24 769	13 920	100.0	13 920	38.4	5 352
2018/2019	–	2024/2025	6.6	24 768	14 878	100.0	14 878	32.0	4 765
2019/2020	1 175.01	2022/2023	6.3	19 337	6 429	100.0	6 429	30.7	1 971
2019/2020	–	2023/2024	6.5	19 333	7 674	100.0	7 674	23.0	1 765
2019/2020	–	2024/2025	6.6	19 332	8 701	100.0	8 701	18.4	1 600
2019/2020	–	2025/2026	6.8	19 327	9 659	100.0	9 659	15.3	1 481
2019/2020	1 374.59	2022/2023	6.4	2 208	624	100.0	624	10.9	68
2019/2020	–	2023/2024	6.6	2 207	763	100.0	763	8.1	62
2019/2020	–	2024/2025	6.7	2 207	885	100.0	885	6.5	58
2019/2020	–	2025/2026	6.9	2 207	998	100.0	998	5.4	54
				490 705	334 343	100.0	334 343	70.7	236 420

(1) *All options were valued using the Black Scholes model and the following variables:*

Dividend yield	*1.3%*
Volatility(4)	*29.9%*
Ex dividend share price	*1 288.90*

(2) *Executive employee turnover of 0% p.a. (2019: 0%) was used to estimate likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

(3) *The remuneration committee approved changes to the performance conditions relating to share options granted in 2017/2018. These performance conditions are that the headline earnings per share (HEPS) growth must exceed the consumer price index (CPI) plus the percentage growth in gross domestic product (GDP) plus 4%, and the attained return on equity (ROE) must outperform 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.*

(4) *The expected price volatility is based on the historic 60 month volatility, adjusted for any expected changes to future volatility due to publicly available information.*

44. Share appreciation rights

Data utilised in the valuation of SARs granted

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

Year granted	Strike price R[3]	Year maturing[4]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2013/2014	209.83	2019/2020	6.3	6 875	7 495	100.0	100.0	7 495
2015/2016	0.01	2020/2021	6.3	28 580	37 111	98.2	100.0	36 440
2015/2016	–	2020/2021	6.5	3 000	3 866	86.5	100.0	3 343
2016/2017	473.05	2020/2021	6.3	33 260	27 541	97.7	100.0	26 919
2016/2017	–	2021/2022	6.3	33 257	27 923	78.2	100.0	21 837
2016/2017	–	2022/2023	6.3	33 253	28 254	65.2	100.0	18 415
2016/2017	576.29	2020/2021	6.7	2 603	1 901	91.8	100.0	1 745
2016/2017	–	2021/2022	6.3	2 603	1 945	73.4	100.0	1 428
2016/2017	–	2022/2023	6.3	2 603	1 991	61.2	100.0	1 219
2017/2018	705.93	2020/2021	6.3	24 052	14 341	97.3	100.0	13 947
2017/2018	–	2021/2022	6.3	24 050	14 989	72.9	100.0	10 928
2017/2018	–	2022/2023	6.3	24 046	15 672	58.3	100.0	9 138
2017/2018	–	2023/2024	6.5	24 040	16 414	48.6	100.0	7 975
2018/2019	881.76	2021/2022	6.3	24 777	11 599	64.1	100.0	7 429
2018/2019	–	2022/2023	6.3	24 771	12 783	48.0	100.0	6 142
2018/2019	–	2023/2024	6.5	24 769	13 920	38.4	100.0	5 352
2018/2019	–	2024/2025	6.6	24 768	14 878	32.0	100.0	4 765
2019/2020	1 175.01	2022/2023	6.3	19 337	6 429	30.7	100.0	1 971
2019/2020	–	2023/2024	6.5	19 333	7 674	23.0	100.0	1 765
2019/2020	–	2024/2025	6.6	19 332	8 701	18.4	100.0	1 600
2019/2020	–	2025/2026	6.8	19 327	9 659	15.3	100.0	1 481
2019/2020	1 374.59	2022/2023	6.4	2 208	624	10.9	100.0	68
2019/2020	–	2023/2024	6.6	2 207	763	8.1	100.0	62
2019/2020	–	2024/2025	6.7	2 207	885	6.5	100.0	58
2019/2020	–	2025/2026	6.9	2 207	998	5.4	100.0	54
				427 465	288 356	66.4	100.0	191 576

(1) *All rights were valued using the Black Scholes model and the following variables:*

Dividend yield	*1.3%*
Volatility[5]	*29.9%*
Ex dividend share price	*1 288.90*

(2) *Executive employee turnover of 0% p.a. (2019:0%) was used to estimate likelihood of vesting conditions realising. A re-estimate in terms of IFRS 2 is done on an annual basis.*

(3) *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.

(4) *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 Consumer Price Index (CPI) plus the percentage growth in GDP plus 4%, and the attained ROE must out perform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50%, and is measured over a cumulative 3 year performance period.*

(5) *The expected price volatility is based on the historic 60 month volatility, adjusted for any expected changes to future volatility due to publicly available information.*

45. Derivative financial instruments

	GROUP			
	Notional		Fair values	
R'000	USD	ZAR	Assets	Liabilities
Designated as cash flow hedges				
2020				
Interest rate swaps	–	2 100 000	–	31 029
Net	–	2 100 000	–	31 029
2019				
Interest rate swaps	–	3 322 000	(479)	14 704
Net	–	3 322 000	(479)	14 704

Forward exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions, and were entered into to match corresponding expected future transactions.

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2020					
Discounted swap cash flows	–	5 262	13 745	12 022	31 029
Net	–	5 262	13 745	12 022	31 029
2019					
Discounted swap cash flows	271	2 508	7 134	4 312	14 225
Net	271	2 508	7 134	4 312	14 225

Designated as economic hedges

	Nominal amount of the hedging instrument		Carrying amount of the hedge instrument	
	Foreign '000	ZAR '000	Assets '000	Liabilities '000
2020				
Forward foreign exchange contracts – USD	33 640	527 821	10 131	18 883
Forward foreign exchange contracts – EUR	15 823	275 098	2 460	10 371
Forward foreign exchange contracts – GBP	2 075	42 185	742	515
Forward foreign exchange contracts – Other	2 492	14 805	67	236
		859 909	13 400	30 005
2020				
Foreign currency swap contracts – USD	12 662	199 543	14 790	–
Foreign currency swap contracts – EUR	9 566	165 891	9 250	–
Foreign currency swap contracts – GBP	–	–	–	–
Foreign currency swap contracts – Other	–	–	–	–
		365 434	24 040	
Derivative financial instruments		1 225 343	37 440	30 005

	2020	2019
Derivative asset		
Current	28 883	(21)
Non-current	8 557	500
	37 440	479

45. Derivative financial instruments (continued)

	COMPANY			
	Notional		Fair values	
R'000	USD	ZAR	Assets	Liabilities
2020				
Interest rate swaps	–	2 100 000	–	31 029
Net	–	2 100 000	–	31 029
2019				
Interest rate swaps	–	3 322 000	(479)	14 704
Net	–	3 322 000	(479)	14 704

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2020					
Discounted swap cash flows	–	5 262	13 745	12 022	31 029
Net	–	5 262	13 745	12 022	31 029
2019					
Discounted swap cash flows	271	2 508	7 134	4 312	14 225
Net	271	2 508	7 134	4 312	14 225

Designated as economic hedges	Notional		Fair values	
	Foreign '000	ZAR '000	Assets '000	Liabilities '000
2020				
Forward foreign exchange contracts – USD	7 617	116 794	5 713	–
2019				
Forward foreign exchange contracts – USD		–	–	–

	2020	2019
Derivative asset		
Current	2 844	(21)
Non-current	2 869	500
	5 713	479

Forward exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions.

Gains and losses recognised in comprehensive income (note 26) on swap contracts will be continuously released to the income statement in line with the interest expense 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. The hedged items comprise variable rate bonds and negotiable instruments detailed in note 19. To ensure hedge effectiveness, the variable rate cash flows on the hedged items are matched with variable rate interest rate swap cash flows (hedging instruments) by entering into swaps where amounts, interest rates and maturities of the swaps exactly match the hedged items.

At 29 February 2020, the fixed interest rates were between 7.030% and 8.510% (2019: 7.03% and 8.510%) and the floating rates were based on forecast 3 month JIBAR rates at 29 February 2020.

The fair value adjustment transferred to the income statement amounted to R15 million (2019: R19 million) and is included in interest expense and other operating expenses. In 2019 and 2020 there were no transactions for which cash flow hedge accounting had to be discontinued due to highly probable cash flow no longer expected to occur.

46. 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. Refer to note 3.2.1 for management's judgements in arriving at this conclusion. 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, as well as sensitivities, is also disclosed in note 3.2.1.

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 client's 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.

Statutory information

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

Holder	Instrument held	Amount held R'000	Holding %[1]
Year ended 29 February 2020			
Sanlam Investment Management Proprietary Limited	Other Unlisted Negotiable Instruments	147 160	59.6%
Nedgroup Investments Flexible Income Fund	Other Unlisted Negotiable Instruments	56 479	22.9%
PSG Wealth Enhanced Interest Fund	Other Unlisted Negotiable Instruments	17 656	7.2%
Sanlam Life Insurance Limited	Listed senior bond	350 206	11.7%
Stanlib Income Fund	Listed senior bond	213 838	7.2%
Channel Life Limited	Listed senior bond	200 067	6.7%
Prudential High Interest Fund	Listed senior bond	178 262	6.0%
Channel Life Limited	Wholesale	65 094	66.8%
Guardrisk Life Limited	Wholesale	32 347	33.2%

(1) *Percentage holding is of the respective class of instruments.*

Shareholders' calendar

Financial year-end
29 February 2020

Integrated annual report
14 April 2020

Interim report
September 2020

JSE interest rate market code
CBL

Administration and addresses

Capitec Bank Limited

Registration number
1980/003695/06

Auditor
PricewaterhouseCoopers Inc.

Directors
SL Botha (Ms) (chairman) (appointed 1 June 2019)
R Stassen (chairman) (retired 31 May 2019)
GM Fourie (chief executive officer)*
AP du Plessis (chief financial officer)*
NS Mashiya (chief risk officer)*
MS du Pré le Roux
LA Dlamini (Ms) (resigned 30 June 2019)
K Makwane
DP Meintjes
JD McKenzie
NS Mjoli-Mncube (Ms) (retired 31 May 2019)
PJ Mouton
CA Otto
JP Verster
TE Mashilwane (Ms) (appointed 6 March 2020)

* *Executive.*

Secretary
YM Mouton (Ms)

Registered address
5 Neutron Road, Techno Park,
Stellenbosch 7600

Postal address
PO Box 12451, Die Boord,
Stellenbosch 7613

Website
www.capitecbank.co.za

Join the Capitec family and follow us

Facebook *Capitec Bank*

We have over 550 000 followers – the second largest following among South African banks.

Our Facebook page grew by 11.5% over the past year.

Twitter *Capitec Bank SA*

We have over 176 000 followers – the highest organic engagement rate per post of any South African bank on Twitter.

Our followers increased by 48.5% in the past year.

Instagram *CapitecBank*

Our Instagram account reached over 34 000 followers – this is the largest following of all the financial service providers in South Africa.

The page grew by over 45% in the past year.

YouTube *Capitec Bank*

- We have over 23 000 subscribers on YouTube. Subscribers increased by 102% in the past year.
- In 2019, the videos on the platform achieved over 10 million views and 81 100 hours total watch time.
- Our Simplify Banking Television commercial achieved over 1.3 million views on YouTube.

LinkedIn *Capitec Bank*

Our highly engaged audience on LinkedIn has grown by a 140% over the past year.

Each platform has a different purpose and focus. Find the one that fits your personality and become part of the conversation.