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

CAPITEC BANK HOLDINGS LIMITED

unaudited financial results

for the 6 months ended 31 August 2018

+20% to 2 128 cents
Headline earnings per share

+20% to R2.461 billion
Headline earnings

+20% to 630 cents
Interim dividend per share

27%
Return on equity

10.5m
Active clients

25%
Transaction volume growth

Key performance indicators

		6 months ended August		Change %	IFRS 9 adjusted 1 March[1]	Year ended February
		2018	2017	2018/ 2017	2018	2018
Profitability						
Interest income[2]	R'm	**7 606**	7 759	(2)		15 474
Net loan fee and insurance income[3]	R'm	**693**	640	8		1 380
Total lending, investment and insurance income[2]	R'm	**8 299**	8 399	(1)		16 854
Interest expense	R'm	**(2 187)**	(2 015)	9		(4 184)
Net lending, investment and insurance income[2]	R'm	**6 112**	6 384	(4)		12 670
Net transaction fee income	R'm	**3 147**	2 386	32		5 127
Other	R'm	**25**	18	39		(1)
Income from operations[2]	R'm	**9 284**	8 788	6		17 796
Net provision for doubtful debts charge[2]	R'm	**(2 542)**	(2 811)	(10)		(5 280)
Net income	R'm	**6 742**	5 977	13		12 516
Income from associates	R'm	**9**	–			3
Operating expenses	R'm	**(3 500)**	(3 156)	11		(6 364)
Income before tax	R'm	**3 251**	2 821	15		6 155
Tax[3]	R'm	**(792)**	(767)	3		(1 685)
Preference dividend	R'm	**(5)**	(7)	(29)		(12)
Earnings attributable to ordinary shareholders						
Basic	R'm	**2 454**	2 047	20		4 458
Headline	R'm	**2 461**	2 046	20		4 461
Net transaction fee income to net income	%	**47**	40			41
Net transaction fee income to operating expenses	%	**90**	76			81
Cost-to-income ratio[2]	%	**38**	36			36
Return on ordinary shareholders equity	%	**27**	26			27
Earnings per share						
Attributable	cents	**2 122**	1 770	20		3 855
Headline	cents	**2 128**	1 769	20		3 858
Diluted attributable	cents	**2 118**	1 765	20		3 843
Diluted headline	cents	**2 124**	1 764	20		3 846
Dividends per share						
Interim	cents	**630**	525	20		525
Final	cents					945
Total	cents					1 470
Dividend cover	x					2.6
Assets						
Net loans and advances	R'm	**41 888**	40 619	3	40 927	41 814
Financial investments[4]	R'm	**46 169**	36 210	28	39 387	39 400
Available-for-sale financial assets	R'm	**100**	102	(2)		100
Other	R'm	**4 030**	3 749	7		3 139
Current income tax asset	R'm	**–**	52		–	107
Deferred income tax asset	R'm	**1 438**	404		1 168	397
Total assets	R'm	**93 625**	81 136	15		84 957
Liabilities						
Retail deposits and wholesale funding	R'm	**71 983**	62 406	15		64 030
Other	R'm	**2 022**	1 600	26	2 447	2 035
Total liabilities	R'm	**74 005**	64 006	16		66 065
Equity						
Shareholders' funds	R'm	**19 620**	17 130	15	18 244	18 892
Capital adequacy ratio	%	**36**	35			36
Net asset value per ordinary share	cents	**16 876**	14 695	15		16 241
Share price	cents	**100 275**	90 050	11		83 246
Market capitalisation	R'm	**115 945**	104 122	11		96 255
Number of shares in issue	'000	**115 627**	115 627			115 627
Share options						
Number outstanding	'000	**691**	837	(17)		777
Number outstanding to shares in issue	%	**0.6**	0.7			0.7
Average strike price	cents	**48 795**	37 950	29		38 561
Average time to maturity	months	**23**	23			19

			6 months ended August		Change %	IFRS 9 adjusted 1 March[1]	Year ended February
			2018	2017	2018/2017	2018	2018
Operations							
Branches			**832**	811	3		826
Employees			**13 710**	13 532	1		13 333
Active clients		'000	**10 522**	9 184	15		9 868
ATMs and DNRs							
Own			**1 987**	1 775	12		1 895
Partnership			**2 925**	2 506	17		2 750
Total			**4 912**	4 281	15		4 645
Capital expenditure		R'm	**457**	467	(2)		829
Credit sales							
Value of credit card disbursements/drawdowns		R'm	**2 686**	1 742	54		3 949
Value of term loans advanced		R'm	**12 000**	12 397	(3)		24 343
Value of total loans advanced		R'm	**14 686**	14 139	4		28 292
Number of total loans advanced[5]		'000	**2 354**	1 871	26		3 947
Average of total credit card disbursements/drawdowns		R	**1 910**	2 521	(24)		2 296
Average of total term loans advanced		R	**12 667**	10 504	21		10 934
Average of total loans advanced		R	**6 239**	7 556	(17)		7 168
Credit book							
Gross loans and advances		R'm	**51 359**	46 544	10	47 642	47 642
Up-to-date	Stage 1	R'm	**39 641**	40 764	6	37 165	41 674
Up-to-date with SICR	Stage 2	R'm	**3 485**			4 401	
Total up-to-date		R'm	**43 126**	40 764	6	41 566	41 674
Arrears – Up to 1 month in arrears	Stage 2	R'm	**911**	1 358	(33)	1 003	1 003
Arrears – 2 and 3 months in arrears	Stage 3	R'm	**1 517**	1 140	33	1 697	1 697
Total arrears up to 3 months		R'm	**2 428**	2 498	(3)	2 700	2 700
Application for debt review within 6 months	Stage 3	R'm	**70**			108	
Up-to-date that rescheduled from up-to-date (not yet rehabilitated[6])	Stage 3	R'm	**963**	1 049	(8)	1 085	1 085
Up-to-date that rescheduled from arrears (not yet rehabilitated[6])	Stage 3	R'm	**1 373**	1 396	(2)	1 277	1 277
Total up-to-date that rescheduled (not yet rehabilitated[6])		R'm	**2 336**	2 445	(4)	2 362	2 362
More than 3 months in arrears and legal status	Stage 3	R'm	**3 001**				
Expected recoveries receivable	Stage 3	R'm	**398**	837	(52)	906	906
Total provision for doubtful debts		R'm	**9 471**	5 925	60	6 715	5 828
Net loans and advances		R'm	**41 888**	40 619	3	40 927	41 814
Total provision for doubtful debts to Stage 3 (excluding expected recoveries receivable) and Stage 2 (up to 1 month in arrears) coverage		%	**121**	120		130	115
Total provision for doubtful debts to Stage 3 (excluding expected recoveries receivable) and Stage 2 (including SICR) coverage		%	**84**			70	
Repayments		R'm	**18 322**	17 116	7		35 974
Gross provision for doubtful debts charge[2]		R'm	**3 333**	3 395	(2)		6 560
Bad debts recovered		R'm	**791**	584	35		1 280
Net provision for doubtful debts charge[2]		R'm	**2 542**	2 811	(10)		5 280
Net provision for doubtful debts charge[2] to average gross loans and advances		%	**5.1**	6.1			11.4
Total lending and insurance income (excluding investment income)[2][7]		R'm	**6 998**	7 378	(5)		15 008
Net provision for doubtful debt charge[2] to total lending and insurance income (excluding investment income)[7]		%	**36.3**	38.1			35.2
Retail deposits and wholesale funding							
Wholesale funding		R'm	**5 769**	7 005	(18)		6 206
Retail call savings		R'm	**41 048**	33 523	22		34 909
Retail fixed savings		R'm	**25 166**	21 878	15		22 915

[1] *Transition to IFRS 9 – Financial Instruments on 1 March 2018. The figures as at 28 February 2018 were adjusted accordingly. Please refer to the audited transitional report on our website that illustrates the impact of implementing IFRS 9 on 1 March 2018. (https://resources.capitecbank.co.za/Capitec_-_IFRS9_transitional_report.pdf)*

[2] *In the current period, under IFRS 9, interest income and net provision for doubtful debts charge are recognised on a net basis for all loans classified as Stage 3 (R442 million for period end August 2018). Refer to table 2: IFRS 9 income recognition impact*

[3] *Insurance profit is received from the cell captives as a dividend after tax. The tax expense on insurance profit is included in net insurance income and deducted from the tax expense line for the period ended August 2018: R142 million (August 2017: R109 million, February 2018: R245 million)*

[4] *Cash, cash equivalents, money market funds, term deposits and other financial investments*

[5] *Includes credit card. For the number of loans advanced, a month in which the credit card is utilised is counted*

[6] *Not rehabilitated – Clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months. Once rehabilitated, the loan is classified as up-to-date*

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

Strong client growth drives performance

Our focus on delivering simple, affordable, accessible solutions through personal service to our clients, and unlocking the full potential of our team, generates shareholder value and improves clients' financial lives.

We continuously improve efficiencies to ensure clients receive the best service and are able to be in control of their money. We attracted 109 000 additional active clients every month for the last 6 months.

Our digital innovation remains focused on offering clients convenience and security. Self-service banking transactions (including the banking app; internet banking; unstructured supplementary service data or USSD, which is mostly used by clients who do not have smart phones; in-branch self-service terminals and dual note recyclers) have increased in volume by 27% to 295 million at the end of August 2018 (August 2017: 231 million). For the 6 month period ended August 2018, 146 million transactions had been performed via our banking app. The app was used by 1.8 million clients – an increase of 62% from August 2017.

Continuous refinements to our credit strategy resulted in an improvement in the quality of the loan book. Arrears up to 3 months decreased by 10% and bad debts recovered increased by 14% for the 6 months since 1 March 2018.

We have expanded our product offering and introduced funeral insurance from 21 May 2018. The performance to date is in line with expectations and we are pleased with the market acceptance.

Earnings up 20%

Client centricity and a team dedicated to operating efficiently has resulted in a return on equity of 27%. Headline earnings increased by 20% to R2.46 billion for the period ended August 2018 from R2.05 billion for the comparative 6 month period ended August 2017.

Net transaction fee income growth of 32%

Net transaction fee income (non-lending) increased from R2.4 billion to R3.1 billion. Net transaction fee income now comprises 47% of total net income and covers 90% of operating expenses.

Total transactional volume, including self-service banking transactions, increased by 25% due to increased usage and a 15% increase in active clients. Of all possible transactions that can be performed in a branch or through self-service banking channels, clients elected to perform 84% through self-service banking channels for the 6 month period ended August 2018 (August 2017: 74%). Self-service banking increases efficiency, saving our clients time and money.

Conservative lending growth

The value of loan sales grew by 4% compared to the period ended 31 August 2017. The net loan book growth of 3% is in line with sales growth. Our credit granting strategy resulted in loan sales with a product term between 73 and 84 months increasing by 121%, and loan sales with a product term between 1 and 12 months decreasing by 10%. Credit card sales increased by 54% with the lowest credit card interest rate now being 10% per annum. As shown in table 2 below, the 1% increase in total lending and insurance income, excluding investment income, on a gross basis, is driven by sales of longer-term loans with lower interest rates.

In the prior period, we communicated improvements to our credit solution. Last year we strengthened our credit solution to allow clients to choose either the amount that suits their purpose, monthly instalments that suit their cash flow or an option that gives them the best interest rate. The stricter granting criteria applied since the prior period also resulted in extending loans to better quality clients.

We continue to improve our understanding of clients' behaviour and risk profiles. This allows us to price loans accordingly and achieve a healthier, more sustainable loan book.

Improved quality credit book, prudent provisioning retained

August 2018 compared to August 2017

The total up-to-date book growth was 6% from 31 August 2017. The arrears loan book at 31 August 2017 can be compared to loans up to 3 months in arrears on 31 August 2018. Total arrears up to 3 months decreased by 3%.

The coverage of total provision for doubtful debts to Stage 3 (excluding expected recoveries receivables) and Stage 2 (up to 1 month in arrears) is comparable to the prior year coverage ratio of provision for doubtful debts to arrears and all reschedules within 6 months. In the current period, this coverage was 121% compared to 120% in the prior period. We continue to be prudent in our approach to provisioning.

August 2018 compared to 1 March 2018

The up-to-date book growth was 7% from 1 March 2018. Up-to-date loans with a significant increase in credit risk (SICR) decreased by 21% from 1 March 2018 to 31 August 2018. This was due to improved behaviour scores and maintaining a strict credit granting strategy during this reporting period.

Loans up to 1 month in arrears decreased by 9% and loans 2 and 3 months in arrears decreased by 11% from 1 March 2018 to 31 August 2018.

Up-to-date loans that rescheduled from up-to-date (not yet rehabilitated) decreased by 11% and loans that rescheduled from arrears (not yet rehabilitated) increased by 8% when compared to 1 March 2018.

The improved up-to-date, SICR and loans up to 3 months in arrears is a direct result of the credit granting strategy applied. The improved quality of the book and better behaviour scores of clients in arrears have resulted in more clients being approved for rescheduling, according to our policy, during the last 6 months. This is due to improved performance of loans that rescheduled, rehabilitated and rolled back into up-to-date.

The coverage of total provision for doubtful debts to Stage 3 (excluding expected recoveries receivables) and Stage 2 (up to 1 month in arrears) decreased from 130% at 1 March 2018 to 121% at 31 August 2018. This is largely due to the change in our write-off policy, as discussed in the IFRS 9 section below.

IFRS 9

We prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). IFRS 9 is the revised accounting standard for financial instruments and was implemented to address perceived deficiencies that were believed to have contributed to the magnitude of the financial crisis of 2008. The new provision model under IFRS 9 addresses criticism of the provision models previously used, which only recognised credit losses once incurred. Under IFRS 9, however, credit losses are recognised on default events projected over the next 12 months or over the lifetime of the asset. Application of this new standard enhances consistency across credit providers' financial statements and disclosures.

We transitioned to IFRS 9 on 1 March 2018. We announced the publication of the audited IFRS 9 – Financial Instruments Transitional Report as at 1 March 2018 on SENS on 16 August 2018. The report can be viewed at https://resources.capitecbank.co.za/Capitec_-_IFRS9_transitional_report.pdf. The report illustrates the impact, provisioning methodology and revised accounting policies following the implementation of IFRS 9. As previously disclosed, the final impact on the retained earnings opening balance on 1 March 2018 was R900 million pre-tax, and R648 million post-tax.

The 6 month period ended 31 August 2018 is the first period during which the IFRS 9 provision methodology was applied. Comparative information was not restated, as permitted by IFRS 9.

Loans previously written off were not written back. By 31 August 2018, a large portion of loans more than 3 months in arrears had not yet been handed over or written off due to the change in accounting write-off policy. This has resulted in a build-up of loans on balance sheet that are more than 3 months in arrears, with an appropriate provision at 31 August 2018. Previously, these loans were written off. Table 1 below shows the proportionate change in write-off and appropriate provision raised under IFRS 9 compared with the prior period.

Table 1		6 months ended August				Change % August	
		2018			2017	2018/ 2017	
Net provision for doubtful debts charge		**IFRS 9 Net**	**Illustrative Gross**	**Difference**		Net	Gross
Bad debts written off	R'm	**1 029**	**1 029**	**–**	3 400	(70)	(70)
Movement in provision for doubtful debts charge	R'm	**2 304**	**2 746**	**442**	(5)		
Gross provision for doubtful debts charge	R'm	**3 333**	**3 775**	**442**	3 395	(2)	11
Bad debts recovered	R'm	**791**	**791**	**–**	584	35	35
Net provision for doubtful debts charge	R'm	**2 542**	**2 984**	**442**	2 811	(10)	6

Under IFRS 9, once a loan rolls into Stage 3, the interest is recognised after deducting the related provision charge. On a gross basis (illustrative), the total provision for doubtful debts charge (bad debts written off and movement in provision) increased by 11% on a 10% growth in gross loans and advances in the current period.

The impact on interest and provision for doubtful debt charge on a gross and net basis, and the effect on related key performance indicators, are presented in table 2 below:

Table 2		6 months ended August				Change % August	
		2018			2017	2018/ 2017	
IFRS 9 income recognition impact		**IFRS 9 Net**	**Illustrative Gross**	**Difference**		Net	Gross
Interest income	R'm	**7 606**	**8 048**	**442**	7 759	(2)	4
Total lending, investment and insurance income	R'm	**8 299**	**8 741**	**442**	8 399	(1)	4
Net lending, investment and insurance income	R'm	**6 112**	**6 554**	**442**	6 384	(4)	3
Total lending and insurance income (excluding investment income)	R'm	**6 998**	**7 440**	**442**	7 378	(5)	1
Net provision for doubtful debts charge	R'm	**2 542**	**2 984**	**442**	2 811	(10)	6
Earnings attributable to ordinary shareholders							
Basic	R'm	**2 454**	**2 454**	**–**	2 047	20	20
Headline	R'm	**2 461**	**2 461**	**–**	2 046	20	20
Cost-to-income ratio	%	**38**	**36**		36		

R66 billion in retail deposits

The total retail deposits increased to R66 billion by the end of August 2018 (August 2017: R55 billion). Retail call savings increased by 22% and retail fixed savings by 15%. The consistent growth within the current period is confirmation of continued brand confidence from retail depositors.

Wholesale funding decreased by 18%, to R5.8 billion (August 2017: R7.0 billion). The requirement for wholesale funding is low as loan growth was moderate in relation to fixed-term retail deposits and internal capital generation growth. Strong support from the market was again confirmed during our bond issuance in May 2018 where we received bids totalling R1.9 billion versus R500 million that was required and issued.

Robust capital and low liquidity risk retained

Our capital adequacy ratio was 36% at 31 August 2018. Should we re-allocate funds in the investment portfolio to lower-risk-weighted government instruments, the ratio could be increased by 4%. The bank is well positioned for growth from a capital perspective.

At 31 August 2018, our liquidity coverage ratio (LCR) was 1 923% and our net stable funding ratio (NSFR) was 205%. These market-leading ratios are the result of our conservatism when managing liquidity.

Credit ratings

S&P affirmed all of the credit ratings of Capitec Bank on 13 September 2018. The long-term global rating is 'BB' and the short-term global rating is 'B'. The outlook is stable. The South African national scale ratings are affirmed as 'zaAA' long term and 'zaA-1+' short term. Our global long-term rating is the same as the sovereign rating as well as those of other large South African banks.

Cost of operations up 11%

Our operating costs increased from R3.2 billion to R3.5 billion in the current period. Our cost-to-income ratio remained at 36% on an illustrative gross basis (38% under IFRS 9) comparative to the 6 month period last year.

Growth in staff, branches and investment in our IT infrastructure are the main drivers for the increase in costs.

The client growth created job opportunities and 377 employees have joined our team since February 2018. We hire for potential and train for competence, which resulted in more learning and training interventions over the past 6 months. The investment in IT infrastructure, increased up-take of self-service banking and more branch staff, unlocks the capacity to cross-sell and ensures our clients receive the best personal service.

We make use of cell captives for insurance and receive the profits in the cell captives after tax in the form of dividends. In the current period, the tax attributable to the profits on cell captives of R142 million was deducted from the net insurance income line as opposed to including it in the total tax expense line. This has resulted in the effective tax rate decreasing to 24.3% for the current period.

Prospects

We plan to expand our product offering to include business banking. This may include the acquisition of Mercantile Bank Holdings Limited, for which we submitted a formal bid on 31 August 2018. We await the outcome.

We completed the 2nd tranche investment in Cream Finance Holding Limited (Creamfinance) which included existing shareholders exercising their option on 10 September 2018. This takes our shareholding to 40.25%. The 3rd tranche is expected to be invested early in the next financial year.

Our 2020 financial year strategy and budget review started earlier this month and will factor in the implementation of IFRS 16, which is effective from 1 March 2019. IFRS 16 impacts operating leases whereby a lessee is required to recognise a leased asset for the right of use and a related liability as the present value of future lease payments. Our branches and ATM operating lease arrangements will be affected from 1 March 2019 under the new accounting standard.

Interim dividend

The directors declared a gross interim dividend for the 6 months ended 31 August 2018 of 630 cents per ordinary share (31 August 2017: 525 cents) on Tuesday, 25 September 2018. The dividend will be paid on Monday, 22 October 2018. There are 115 626 991 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act (Act 58 of 1962). The dividend amount, net of South African dividend tax of 20%, is 504 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 16 October 2018
Trading ex-dividend commences	Wednesday, 17 October 2018
Record date	Friday, 19 October 2018
Payment date	Monday, 22 October 2018

Share certificates may not be dematerialised or rematerialised from Wednesday, 17 October 2018 to Friday, 19 October 2018, both days inclusive.

On behalf of the board

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
26 September 2018

Summarised consolidated statement of financial position

	Notes	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/2017 %	Audited February 2018 R'm
Assets					
Cash, cash equivalents and money market funds		**28 988**	23 906	21	25 091
Financial investments*		**12 186**	6 701	82	11 781
Term deposit investments		**4 995**	5 603	(11)	2 528
Net loans and advances	1	**41 888**	40 619	3	41 814
Other receivables		**1 254**	1 585	(21)	722
Net insurance receivable		**257**	–		245
Derivative assets		**26**	64	(59)	–
Financial assets – equity instruments at FVOCI**		**100**	102	(2)	100
Current income tax asset		**–**	52		107
Investment in associate		**305**	104		134
Property and equipment		**1 920**	1 725	11	1 755
Intangible assets		**268**	271	(1)	283
Deferred income tax asset		**1 438**	404		397
Total assets		**93 625**	81 136	15	84 957
Liabilities					
Derivative liabilities		**11**	74	(85)	54
Current income tax liability		**73**	–		–
Retail deposits		**66 214**	55 401	20	57 824
Other liabilities		**1 897**	1 484	28	1 914
Wholesale funding		**5 769**	7 005	(18)	6 206
Provisions		**41**	42	(2)	67
Total liabilities		**74 005**	64 006	16	66 065
Equity					
Capital and reserves					
Ordinary share capital and premium		**5 649**	5 649		5 649
Cash flow hedge reserve		**1**	(34)		(26)
Foreign currency translation reserve		**40**	–		3
Retained earnings		**13 823**	11 377	21	13 153
Share capital and reserves attributable to ordinary shareholders		**19 513**	16 992	15	18 779
Non-redeemable, non-cumulative, non-participating preference share capital and premium		**107**	138	(22)	113
Total equity		**19 620**	17 130	15	18 892
Total equity and liabilities		**93 625**	81 136	15	84 957

* *Reclassification: Held-to-maturity assets were reclassified as financial investments under IFRS 9*
** *Equity investments has been designated at fair value through OCI under IFRS 9*

Summarised consolidated income statement

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/ 2017 %	Audited February 2018 R'm
Lending, investment and insurance income[1]	**8 429**	8 628	(2)	17 266
Interest income[1]	**7 606**	7 759	(2)	15 474
Loan fee income	**455**	482	(6)	919
Net insurance income[2][3][5]	**368**	387	(5)	873
Lending and investment expenses	**(2 317)**	(2 244)	3	(4 596)
Interest expense	**(2 187)**	(2 015)	9	(4 184)
Loan fee expense[4][5]	**(130)**	(229)	(43)	(412)
Net lending, investment and insurance income[1]	**6 112**	6 384	(4)	12 670
Transaction fee income	**4 084**	3 234	26	6 925
Transaction fee expense	**(937)**	(848)	10	(1 798)
Net transaction income	**3 147**	2 386	32	5 127
Net provision for doubtful debts charge[1]	**(2 542)**	(2 811)	(10)	(5 280)
Other income/(expense)	**25**	18	39	(1)
Net income	**6 742**	5 977	13	12 516
Operating expenses	**(3 500)**	(3 156)	11	(6 364)
Share of net profit of associates	**9**	–		3
Operating profit before tax	**3 251**	2 821	15	6 155
Income tax expense[3]	**(792)**	(767)	3	(1 685)
Profit for the period	**2 459**	2 054	20	4 470
Earnings per share (cents)				
Basic	**2 122**	1 770	20	3 855
Diluted	**2 118**	1 765	20	3 843

(1) *In the current period, under IFRS 9, interest income and net provision for doubtful debts charge are recognised on a net basis for all loans classified as Stage 3 (R442 million for the period ended August 2018)*

(2) *Net insurance income relates to profits attributable to the 3rd party cell captive credit life insurance for loans granted after 6 May 2016*

(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 and deducted from the tax expense line for the period ended August 2018: R142 million (August 2017: R109 million, February 2018: R245 million)*

(4) *Loan fee expense relates to the credit life insurance expense under the 1st party cell captive for loans granted prior to 6 May 2016*

(5) *Loans and advances after 6 May 2016 under the 3rd party credit life insurance cell captive forms a greater portion of the credit book. Loans and advances under the 1st party credit life insurance cell captive prior to 6 May 2016 forms a smaller portion of the credit book*

Summarised consolidated statement of other comprehensive income

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/2017 %	Audited February 2018 R'm
Profit for the period	**2 459**	2 054	20	4 470
Other comprehensive income that will be reclassified to profit and loss for the period	**27**	(33)		(15)
Cash flow hedge reserve recognised during the period	**49**	(21)		59
Cash flow hedge reclassified to profit and loss for the period	**(11)**	(25)		(80)
Income tax relating to cash flow hedge	**(11)**	13		6
Foreign currency translation reserve recognised during the period	**37**	11		3
Total comprehensive income for the period	**2 523**	2 032	24	4 458

Reconciliation of attributable earnings to headline earnings

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/2017 %	Audited February 2018 R'm
Net profit attributable to equity holders	**2 459**	2 054	20	4 470
Preference dividend	**(5)**	(7)	(29)	(12)
Net profit after tax attributable to ordinary shareholders	**2 454**	2 047	20	4 458
Non-headline items:				
Loss/(profit) on disposal of property and equipment	**8**	(1)		3
Income tax charge – property and equipment	**(1)**	–		–
Headline earnings	**2 461**	2 046	20	4 461

Summarised consolidated statement of cash flows

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/2017 %	Audited February 2018 R'm
Cash flow from operating activities				
Cash flow from operations	**9 867**	8 512	16	13 674
Income taxes paid	**(1 350)**	(746)	81	(1 741)
	8 517	7 766	10	11 933
Cash flow from investing activities				
Purchase of property and equipment	**(385)**	(409)	(6)	(686)
Proceeds from disposal of property and equipment	**2**	4	(50)	32
Purchase of intangible assets	**(72)**	(59)	22	(143)
Investment in term deposit investments	**(4 936)**	(2 551)	93	(3 153)
Redemption of term deposit investments	**2 446**	3 549	(31)	7 159
Acquisition of financial investments*	**(6 583)**	(4 927)	34	(12 904)
Redemption of financial investments*	**6 268**	3 553	76	6 650
Acquisition of available-for-sale financial assets	**–**	(2)		–
Movement in money market unit trusts	**(11)**	(6)	83	(14)
Acquisition of interest in associates	**(125)**	(93)	34	(129)
	(3 396)	(941)		(3 188)
Cash flow from financing activities				
Dividends paid	**(1 097)**	(932)	18	(1 545)
Preference shares repurchased	**(6)**	(13)	(54)	(39)
Issue of institutional bonds and other funding	**500**	505	(1)	500
Redemption of institutional bond and other funding	**(500)**	(1 034)	(52)	(1 110)
Realised loss on settlement of employee share options less participants' contributions	**(121)**	(128)	(5)	(151)
	(1 224)	(1 602)	(24)	(2 345)
Net increase in cash and cash equivalents	**3 897**	5 223	(25)	6 400
Cash and cash equivalents at the beginning of the period	**25 070**	18 670	34	18 670
Cash and cash equivalents at the end of the period	**28 967**	23 893	21	25 070

* *Previously classified as Held-to-maturity investments*

Summarised consolidated statement of changes in equity

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/ 2017 %	Audited February 2018 R'm
Equity at the beginning of the period	**18 892**	16 118	17	16 118
Transitional adjustment for IFRS 9	**(648)**	–		–
Total comprehensive income for the period	**2 523**	2 032	24	4 458
Ordinary dividend	**(1 092)**	(925)	18	(1 531)
Preference dividend	**(5)**	(7)	29	(12)
Employee share option scheme:				
Value of employee services	**16**	19	(16)	37
Shares acquired for employee share options at cost	**(171)**	(184)	7	(225)
Proceeds on settlement of employee share options	**52**	56	(7)	74
Tax effect on share options	**59**	34	74	12
Preference shares repurchased	**(6)**	(13)	(54)	(39)
Equity at the end of the period	**19 620**	17 130	15	18 892

Commitments

	Unaudited August 2018 R'm	Unaudited August 2017 R'm	Six months August 2018/ 2017 %	Audited February 2018 R'm
Capital commitments approved by the board				
Contracted for:				
Property and equipment	**698**	156		148
Intangible assets	**166**	27	(30)	16
Not contracted for:				
Property and equipment	**799**	1 311	(39)	897
Intangible assets	**186**	255	(27)	242
	1 849	1 749	6	1 303
Property operating lease commitments				
Future aggregate minimum lease payments				
Within one year	**494**	452	9	469
From one to five years	**1 305**	1 285	2	1 292
After five years	**202**	288	(30)	269
Total future cash flows	**2 001**	2 025	(1)	2 030
Straight-lining accrued	**(140)**	(125)	12	(135)
Future expenses	**1 861**	1 900	(2)	1 895

1. Impact of IFRS 9 on loans and advances

R'm	Stage 1 Up-to-date	Stage 2 Up-to-date loans with SICR and applied for debt review >6 months	Stage 2 Up to 1 month in arrears	Stage 3 2 and 3 months in arrears	Stage 3 Re-scheduled from up-to-date (not yet re-habilitated)	Stage 3 Re-scheduled from arrears (not yet re-habilitated)	Stage 3 More than 3 months in arrears, legal statuses and applied for debt review <6 months[1]	Stage 3 Expected recoveries receivable	Total
Balance at 31 August 2018									
Gross loans and advances	**39 641**	**3 485**	**911**	**1 517**	**963**	**1 373**	**3 071**	**398**	**51 359**
Cumulative provision	**(2 880)**	**(902)**	**(543)**	**(1 244)**	**(431)**	**(646)**	**(2 825)**	**–**	**(9 471)**
Net loans and advances	**36 761**	**2 583**	**368**	**273**	**532**	**727**	**246**	**398**	**41 888**
Provision %	**7.3**	**25.9**	**59.6**	**82.0**	**44.8**	**47.1**	**92.0**		**18.4**

R'm	Stage 1 Up-to-date	Stage 2 Up-to-date loans with SICR and applied for debt review >6 months	Stage 2 Up to 1 month in arrears	Stage 3 2 and 3 months in arrears	Stage 3 Re-scheduled from up-to-date (not yet re-habilitated)	Stage 3 Re-scheduled from arrears (not yet re-habilitated)	Stage 3 More than 3 months in arrears, legal statuses and applied for debt review <6 months[1]	Stage 3 Expected recoveries receivable	Total
Balance at 1 March 2018									
Gross loans and advances	37 165	4 401	1 003	1 697	1 085	1 277	108	906	47 642
Cumulative provision	(2 675)	(1 033)	(558)	(1 311)	(462)	(609)	(67)	–	(6 715)
Net loans and advances	34 490	3 368	445	386	623	668	41	906	40 927
Provision %	7.2	23.5	55.6	77.3	42.6	47.7	62.0		14.1

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

R'm	Up-to-date	Up to 1 month in arrears	2 and 3 months in arrears	Re-scheduled from up-to-date (not yet re-habilitated)	Re-scheduled from arrears (not yet re-habilitated)		Expected recoveries receivable	Total
Balance at 31 August 2017								
Gross loans and advances	40 764	1 358	1 140	1 049	1 396		837	46 544
Cumulative provision	(3 386)	(697)	(927)	(172)	(743)		–	(5 925)
Net loans and advances	37 378	661	213	877	653		837	40 619
Provision %	8.3	51.3	81.3	16.4	53.2			12.7

Segment analysis

The group reports a single segment – retail banking – within the South African economic environment. The business is widely distributed and has no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

Fair values

In terms of IFRS 13 'Fair value measurement', the fair value determined for disclosure purposes of loans and advances (level 3) was R43.2 billion (August 2017: R43.8 billion), retail deposits (level 2) was R66.4 billion (August 2017: R55.7 billion) and wholesale funding (level 2) was R5.9 billion (August 2017: R7.2 billion). The measured fair value of derivative assets (level 2) was valued at R25.9 million (August 2017: R63.5 million), available-for-sale investments (level 3) was R100 million (August 2017: R102 million) and derivative liabilities (level 2) was R11.4 million (August 2017: R73.5 million). The fair value of all other financial instruments equates to their carrying amount.

Unaudited interim financial statements

The condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act, Act 71 of 2008, as amended.

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS, including IFRS 9 Financial Instruments, which was effective from 1 March 2018. Capitec elected as permitted by IFRS 9, not to restate comparative financial statements, with the impact of IFRS 9 being applied retrospectively as an adjustment to the opening retained earnings of 1 March 2018. The accounting policies applied are consistent with the previous consolidated annual financial statements, with the above IFRS 9 exception.

All other standards, interpretations and amendments to published standards applied for the first time during the current financial period did not have any significant impact on the financial statements. The Group complies in all material respects, with the requirements of the King IV Report on Corporate Governance™ for South Africa 2016. Basel disclosures, in terms of Regulation 43 of the Banks Act, Act 94 of 1990, are available on the Capitec Bank website.

No event that is material to the financial affairs of the Group, has occurred between the reporting date and the date of approval of the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were not reviewed or audited by the Company's auditors.

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

Company secretary and registered office
YM Mouton
1 Quantum Street, Techno Park, Stellenbosch 7600; PO Box 12451, Die Boord, Stellenbosch 7613

Transfer secretaries
Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196; PO Box 61051, Marshalltown 2107

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

Directors
R Stassen (Chairman), GM Fourie (CEO)*, LA Dlamini, AP du Plessis (CFO)*, MS du P le Roux, K Makwane, NS Mashiya*, JD McKenzie, NS Mjoli-Mncube, PJ Mouton, CA Otto, JP Verster.

* *Executive*

capitecbank.co.za
enquiries@capitecbank.co.za