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

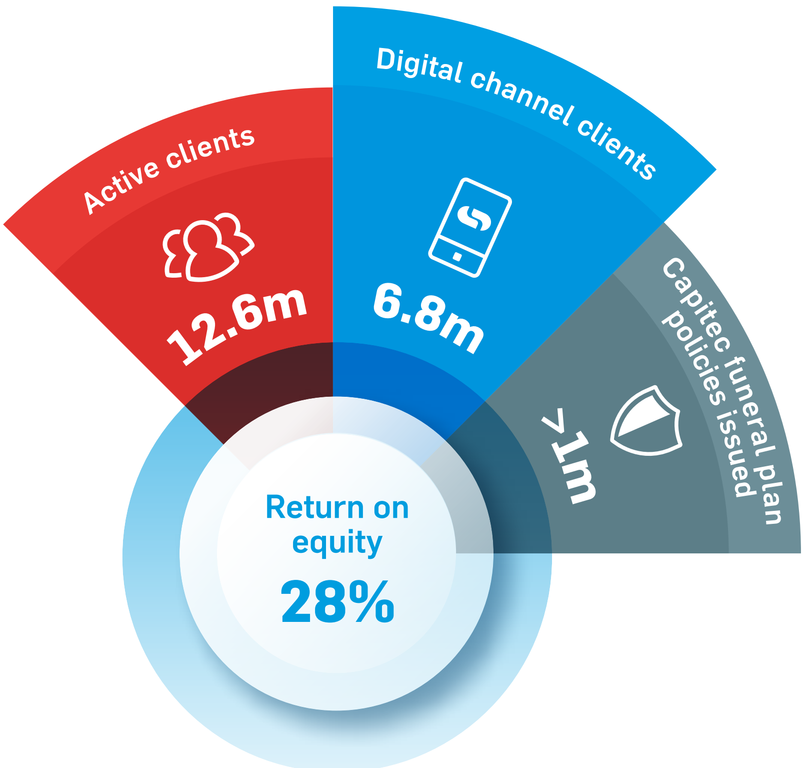
unaudited financial results

for the 6 months ended 31 August 2019

+20%
to 2 545 cents
Headline earnings per share

+20%
to R2.943 billion
Headline earnings

+20%
755 cents
Interim dividend per share



Key performance indicators

		6 months ended August 2019	6 months ended August 2018	Change % 2019/2018	Year ended February 2019
Profitability					
Interest income on loans[1]	R'm	**6 443**	6 305	2	12 723
Interest income on investments	R'm	**1 681**	1 301	29	2 778
Interest income	R'm	**8 124**	7 606	7	15 501
Net loan fee and insurance income	R'm	**859**	693	24	1 507
Total lending, investment and insurance income less loan fee expense	R'm	**8 983**	8 299	8	17 008
Interest expense[1]	R'm	**(2 677)**	(2 187)	22	(4 510)
Net lending, investment and insurance income	R'm	**6 306**	6 112	3	12 498
Net transaction fee income	R'm	**3 529**	3 147	12	6 464
Other	R'm	**11**	19	(42)	3
Funeral income	R'm	**107**	6		54
Income from operations	R'm	**9 953**	9 284	7	19 019
Credit impairment charge[1]	R'm	**(2 115)**	(2 542)	(17)	(4 450)
Net income	R'm	**7 838**	6 742	16	14 569
Income from associates	R'm	**(3)**	9		2
Operating expenses[1]	R'm	**(4 003)**	(3 500)	14	(7 494)
Income before tax	R'm	**3 832**	3 251	18	7 077
Tax	R'm	**(879)**	(792)	11	(1 781)
Preference dividend	R'm	**(4)**	(5)	(20)	(9)
Discount on repurchase of preference shares	R'm	**(1)**	–		(2)
Earnings attributable to ordinary shareholders					
Basic	R'm	**2 948**	2 454	20	5 285
Headline	R'm	**2 943**	2 461	20	5 292
Net transaction fee and funeral income to net income[1]	%	**46**	47		45
Net transaction fee and funeral income to operating expenses[1]	%	**91**	90		87
Cost-to-income ratio[1]	%	**40**	38		39
Return on ordinary shareholders equity	%	**28**	27		28
Earnings per share					
Attributable	cents	**2 549**	2 122	20	4 571
Headline	cents	**2 545**	2 128	20	4 577
Diluted attributable	cents	**2 545**	2 118	20	4 562
Diluted headline	cents	**2 540**	2 124	20	4 568
Dividends per share					
Interim	cents	**755**	630	20	630
Final	cents				1 120
Total	cents				1 750
Dividend cover	x				2.6
Assets					
Net loans and advances	R'm	**47 403**	41 888	13	44 515
Financial instruments at amortised cost[2]	R'm	**57 125**	46 169	24	49 208
Financial assets – equity instruments at fair value through other comprehensive income	R'm	**100**	100		100
Right-of-use asset (IFRS 16)	R'm	**2 470**	–		–
Other	R'm	**4 885**	4 030	21	5 009
Deferred income tax asset	R'm	**1 613**	1 438	12	1 596
Total assets	R'm	**113 596**	93 625	21	100 428
Liabilities					
Retail deposits and wholesale funding	R'm	**85 324**	71 983	19	76 443
Other	R'm	**5 096**	2 022		2 309
Total liabilities	R'm	**90 420**	74 005	22	78 752
Equity					
Shareholders' funds	R'm	**23 176**	19 620	18	21 676
Capital adequacy ratio	%	**34**	36	(7)	34
Net asset value per ordinary share	cents	**20 044**	16 876	19	18 676
Share price	cents	**109 490**	100 275	9	130 621
Market capitalisation	R'm	**126 600**	115 945	9	151 033
Number of shares in issue	'000	**115 627**	115 627	0	115 627
Share options					
Number outstanding	'000	**549**	691	(21)	640
Number outstanding to shares in issue	%	**0.5**	0.6		0.6
Average strike price	cents	**65 218**	48 795	34	50 644
Average time to maturity	months	**23**	23		18

			6 months ended August 2019	2018	Change % 2019/2018	Year ended February 2019
Operations						
Branches			**834**	832		840
Employees			**13 923**	13 710	2	13 774
Active clients		'000	**12 575**	10 522	20	11 386
ATMs and DNRs						
Own			**2 199**	1 987	11	2 090
Partnership			**3 110**	2 925	6	2 921
Total			**5 309**	4 912	8	5 011
Capital expenditure		R'm	**804**	457	76	1 141
Credit sales						
Value of credit card disbursements/drawdowns		R'm	**4 268**	2 686	59	6 193
Value of term loans advanced[3]		R'm	**13 424**	11 224	20	23 475
Value of credit facility disbursements/drawdowns		R'm	**344**	776	(56)	1 300
Value of total loans advanced		R'm	**18 036**	14 686	23	30 968
Number of total loans advanced[4]		'000	**2 786**	2 354	18	4 889
Average credit card disbursement/drawdown		R	**2 057**	1 910	8	1 974
Average term loan advanced		R	**24 753**	22 950	8	26 181
Average credit facility disbursement/drawdown		R	**1 549**	1 524	2	1 521
Average loan advanced		R	**6 475**	6 239	4	6 334
Credit book						
Gross loans and advances[5]		R'm	**60 252**	51 359	17	55 895
Up-to-date	Stage 1	R'm	**45 311**	39 641	14	41 587
Up-to-date with SICR	Stage 2	R'm	**3 284**	3 485	(6)	3 765
Total up-to-date		R'm	**48 595**	43 126	13	45 352
Arrears – up to 1 month in arrears	Stage 2	R'm	**856**	911	(6)	1 087
Arrears – 2 and 3 months in arrears[5]	Stage 3	R'm	**1 305**	1 517	(14)	1 483
Total arrears up to 3 months		R'm	**2 161**	2 428	(11)	2 570
Application for debt review within 6 months	Stage 3	R'm	**73**	70	4	70
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[5] [6]	Stage 3	R'm	**1 009**	963	5	900
Up-to-date that rescheduled from arrears (not yet rehabilitated)[5] [6]	Stage 3	R'm	**1 496**	1 373	9	1 354
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**2 505**	2 336	7	2 254
More than 3 months in arrears and legal status[5]	Stage 3	R'm	**6 918**	3 001		5 649
Expected recoveries receivable	Stage 3	R'm	**–**	398		–
Total provision for credit impairment[5]		R'm	**12 849**	9 471	36	11 380
Net loans and advances		R'm	**47 403**	41 888	13	44 515
Total provision for credit impairment to stage 3 and stage 2 (up to 1 month in arrears) coverage[5]		%	**110**	115		108
Repayments		R'm	**20 199**	18 322	10	38 100
Credit impairment charge[1]		R'm	**2 803**	3 333	(16)	4 917
Bad debts recovered		R'm	**688**	791	(13)	467
Net credit impairment charge[1]		R'm	**2 115**	2 542	(17)	4 450
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1] [5]		%	**3.6**	5.1		8.6
Total lending and insurance income (excluding investment income)[7]		R'm	**7 432**	7 053	5	14 448
Net credit impairment charge to total lending and insurance income (excluding investment income)[1] [7]		%	**28.5**	36.0		30.8
Retail deposits and wholesale funding						
Wholesale funding		R'm	**3 949**	5 769	(32)	5 078
Retail call savings		R'm	**50 896**	41 048	24	45 141
Retail fixed savings		R'm	**30 479**	25 166	21	26 224

(1) *Under IFRS 9, interest income and credit impairment charges are recognised on a net basis for all loans classified as stage 3 (R764 million netting reversal for the period ended August 2019; August 2018: R442 million; February 2019: R631 million). In the current period, under IFRS 16, interest expense increased by R134 million, depreciation increased by R199 million and premises rental decreased by R245 million*

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

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

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

(5) *At 28 February 2019, the gross carrying amount did not include impaired interest on stage 3 loans and advances. 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 of the loan, i.e. after expected credit loss (ECL). In the current period, the gross carrying amount was updated to include all contractual cash flows before ECL. This is aligned to industry practice under IFRS 9. The gross carrying amount has been grossed up by R1 016 million at 28 February 2019. There is no impact on the primary statements or the transitional balance sheet*

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

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

A bank for all

Our philosophy is to offer equal access to affordable banking that is simple to understand, transparent and that helps our clients improve their financial lives. We make no distinction between our clients and give everyone the opportunity to bank where and when they want, whether digital or in a branch.

The South African banking landscape has evolved rapidly over the past couple of years. Digitalisation has resulted in approximately 6.8 million clients now making use of our digital channels (banking app and USSD (primarily for feature phones)) up from 4.7 million at the end of August 2018. Our dedication to satisfying our clients' digital banking needs was affirmed when we were voted as South Africa's best digital bank of 2019 by Columinate's SITEisfaction® survey.

Branches are an essential need and are relevant to our clients. We have 834 branches across the country in convenient locations and approximately 6 million clients visit our branches every month. We have converted 122 branches where we have removed the cashier and implemented a full self-help functionality. This enabled us to add an additional consultant workstation for further capacity in the branch. Altogether 21 new branches are scheduled to open during the second half of this financial year.

The delivery on clients' needs through **personalised service** has resulted in an average client growth of almost 200 000 per month over the last 6 months. We now have 12.6 million active clients. Since February 2019, 149 employees have joined our team and we now employ 13 923 people. We have had no retrenchments and do not plan any either.

Through our commitment to providing solutions that are **simple, accessible** and **affordable,** we continue to make a meaningful contribution to the financial well-being of our clients and the sustainability of our business.

20% growth in earnings

Headline earnings increased to R2.94 billion for the 6-month period ended August 2019 from R2.46 billion for the period ended August 2018. Return on shareholders' equity for the current period is 28% (August 2018: 27%).

Net transaction income growth of 12%

On 1 March 2019, transaction fees for payments made via the banking app, internet banking or USSD and the monthly administration fee on our Global One account were reduced. Our philosophy is to give back to clients as digital channel usage increases efficiency.

Despite decreasing the transaction fees to clients, the net transaction fee income grew by 12% due to a switch from branch to digital transacting and an increased use of cards as opposed to cash. This behaviour shift towards digital banking is in line with our strategy, and created capacity in our branch network to accommodate the strong growth in clients, credit applications and the issue of Capitec funeral plans.

Our net transaction fee and funeral income cover 91% of operating expenses (August 2018: 90%). We did not see a decrease in operational expenses because of the uptake in the Capitec funeral plan and an increase of 2 million in our client base in the last 12 months. Transaction and funeral income comprise 46% of our net income (August 2018: 47%). Total net transaction fee income increased from R3.15 billion to R3.53 billion due to the change in client behaviour.

The net fee income from our digital channels has increased by 10% from R344 million to R380 million. Approximately 2.9 million clients actively use the banking app (August 2018: 1.8 million). An increase in the volume of banking app transactions by 99% to 290 million for the period under review (August 2018: 146 million) confirms our app's capability to help our clients bank better. USSD users increased to 4.7 million for the current period from 3.9 million for the same period in the prior year.

The transaction volume of self-service solutions (including the banking app, internet banking, USSD, in-branch self-service terminals and dual note recyclers) has increased by 40% to 628 million at the end of August 2019 (August 2018: 450 million).

The net transaction fee income from branch-related transactions has increased by 4% to R1.40 billion (August 2018: R1.35 billion). This is a contribution of 20.4% to the total net transaction fee income.

Retail deposit growth of 23%

During this 6-month period we paid out R2.28 billion (August 2018: R1.86 billion) in interest on retail call deposits, fixed deposits and positive credit card accounts. Retail deposits increased by 23% to R81.4 billion (August 2018: R66.2 billion) which is a reflection of our clients' trust in our brand. Industry reports indicate that there is approximately R295 billion in South Africa in transactional accounts earning no interest. If that money earned just 4.75% interest it would put over R14 billion extra into the pockets of South Africans every year. Our clients currently earn between a minimum of 4.75% and 8.55% interest per year on any positive balance on their accounts.

Depositors' money invested in retail call deposits is not utilised to fund credit granting, which is funded by wholesale funding, retail fixed deposits and retained earnings.

Wholesale funding decreased by 32% during the current period to R3.95 billion (August 2018: R5.77 billion). It was deliberately managed lower due to strong retail fixed deposits and earnings growth. We issued a bond of R500 million and received bids totalling R2.75 billion, which is 550% of what we asked for. We will always retain some wholesale funding as an element of our funding.

A personalised funeral plan

Since the product launch, in May 2018, more than 1 million Capitec funeral plan policies have been issued and during the last 2 months, 100 000 policies per month. Of the total policies issued, 67% are active. Altogether 85% of the policies issued during the last 6 months were issued in the branches.

Staying true to our fundamentals, the competitive pricing of the Capitec funeral plan unlocks savings for our clients. This allows clients to either cover additional family members, increase their cover amount or have more disposable income.

To date, the claims experience and policies that lapse are lower than expected due to the book being in the early stages of maturity.

Improved credit quality

Adopting a clear strategy to improve credit client quality allowed us to extend better loan offers and terms to clients. During the last 2 years there was a focus on our clients' profiles and their behaviour, the impact of which was to tighten the credit criteria. Stricter granting criteria resulted in an improved arrears performance, which allowed us to extend better offers to certain segments of clients.

The gross loan book increased by 17% to R60.25 billion for the period from R51.36 billion in the prior period. The total arrears up to 3 months decreased by 11% to R2.16 billion at the end of August 2019 (August 2018: R2.43 billion; February 2019: R2.57 billion). On an annualised basis, the credit loss ratio decreased to 7.2% for the current period compared to 10.2% in the 6 months ended August 2018 (February 2019: 8.6%). Gross loans and advances in arrears by more than 3 months and loans with legal statuses (debt review and handed over) grew to R6.99 billion compared to R3.07 billion at the end of August 2018. The increase is due to IFRS 9.

Previously, loans were written off when they were more than 3 months in arrears or had a legal status. Since the implementation of IFRS 9 on 1 March 2018, loans are only written off when there is no reasonable expectation of further recovery beyond 5% of the gross balance at write-off. Loans therefore remain on book for longer and this resulted in the increase in stage 3 loans that are more than 3 months in arrears. These loans are appropriately provided for at 92.3% at 31 August 2019.

Under IFRS 9, the interest income and the related credit impairment charge are netted off for stage 3 loans. The effect of this is that interest and credit impairment charge are lower by R764 million (August 2018: R442 million). If this effect is taken into consideration, the decrease in the net credit impairment charge would be 4% instead of the 17% currently displayed. This decrease is directly due to the improvement in arrears mentioned above.

Loans (37–84 months) advanced during the 6 months ended August 2019 increased by 8% driven by higher earning, better quality clients. Loans (1–36 months) advanced during the same period increased by 23% due to an increase in clients that do not take the maximum loan for which they qualify, but take shorter loans or lower amounts at lower interest rates. These clients represented 58.5% of loans advanced (August 2018: 50.9%).

We were able to improve credit card offers to the extent that our gross credit card book grew by 71% to R4.55 billion at the end of August 2019 (August 2018: R2.66 billion; February 2019: R3.62 billion). It comprises 3.6%* of the total South African retail credit card market. The product is performing within expectations and growth is due to competitive rates and limits personalised to our clients' needs. Currently clients can qualify for credit limits of up to R250 000 with interest rates as low as prime.

* *South African Reserve Bank (BA 900)*

Debt Intervention legislation

The National Credit Amendment Act 7 of 2019 (the Act) does not compromise our credit portfolio. Less than 5% of our credit book falls within the scope of the Act.

In summary, the Act provides for the restructuring of the debt of heavily indebted consumers who earn a gross monthly income of less than R7 500, have unsecured debt amounting to up to R50 000 and who have been found to be critically indebted by the National Credit Regulator (NCR). A consumer can become critically indebted when their income decreases or their living expenses increase. If the consumer approaches the NCR (who will act as a debt counsellor), the NCR will present a debt relief solution to the National Consumer Tribunal (who will act as the "court"). This is not dissimilar to the options already available in the market.

Currently, the clients being addressed in the Act have the option to approach a debt counsellor and apply for debt review in which case the appropriate level of credit impairment is raised.

The definition of over-indebtedness to be applied according to the Act still requires further clarity. We continue to apply stricter credit affordability criteria compared to those stipulated by the National Credit Act.

IFRS 16 *Leases*

We implemented IFRS 16, the revised accounting standard for leases on 1 March 2019. IFRS 16 requires the lessee, in an operating lease commitment, to record an asset with a corresponding lease liability. At Capitec we enter into operating leases for branches, off-site ATM locations, office space and storage facilities.

The lease liabilities were measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate as at 1 March 2019. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the balance sheet as at 28 February 2019.

On 1 March 2019, we recognised lease liabilities of R2.75 billion and right-of-use assets of R2.60 billion. Practically, operating leases and rental cost expenses will be replaced by an interest expense and depreciation charge.

Earnings were negatively impacted by 50 cents per share for the 6 months to 31 August 2019 as a result of the adoption of IFRS 16.

Cost-to-income ratio of 40%

The increase in operating expenses is mainly due to salaries and information technology. This is due to investment in our future growth and a focus on enhancing a personalised customer experience on all platforms.

Capital expenditure has increased to R804 million at August 2019 (August 2018: R457 million) mainly due to the building of our new head office as well as the implementation of the new SAP general ledger, procurement and human resource system.

The cost-to-income ratio was impacted by 2 new IFRS statements. The impact of the IFRS 9 netting treatment of interest income on stage 3 loans resulted in a decrease of R764 million in interest on loans for the 6 months ended August 2019 (August 2018: R442 million; February 2019: R631 million) and decreased income from operations. The impact of IFRS 16 was that we recognised depreciation and interest costs, instead of operating lease expenses. During the 6-month period ended August 2019, we recognised R199 million of depreciation in operating expenses and R134 million of interest costs in interest expense for these leases. These costs replace the operating lease charges for the 6-month period ended August 2018, amounting to R245 million.

We remain well capitalised and have low liquidity risk

Capitec remains well capitalised with a capital adequacy ratio (CAR) of 34% at 31 August 2019.

The implementation of IFRS 16 on 1 March 2019 reduced the CAR by 1.4%.

Once the Mercantile Bank acquisition has been approved, we will consolidate their assets and liabilities. The total impact of the consolidation is expected to reduce the CAR by approximately 6.5% while diversifying our business.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 126% and NSFR is 202% as a result of our conservative liquidity strategy. (The Basel 3 requirement is 100% for both ratios.)

Credit ratings

S&P Global Ratings, affirmed Capitec Bank's ratings on 22 November 2018 with a stable 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 the other major South African banks.

Prospects

Our focus on delivering simple, affordable, accessible solutions to our clients through personal service will remain, not only through our retail bank, but also through our business bank in the near future. We believe in a positive long-term view of South Africa, that is why we look forward to integrating Mercantile Bank. Announcements regarding the final approval of the Mercantile Bank acquisition and related details will be made via the Johannesburg Stock Exchange News Service (SENS).

We will continue to use digital innovation and artificial intelligence to ensure that we provide our clients with the best digital banking and payment solutions, as well as improve our client insights.

Changes in board composition

On 31 May 2019, Riaan Stassen, our chairman and one of the founders of Capitec Bank, retired. We thank and honour Riaan for the significant role he played in the success of the bank and wish him well in his retirement. The board appointed Santie Botha as the new chairman, effective 1 June 2019. Santie's appointment will strengthen the independent element of the board and support the continuous drive to augment board acumen.

Lindi Dlamini resigned from the board on 30 June 2019 due to her appointment as chief executive officer at a financial services company. We thank Lindi for her commitment and contribution during her time on the board.

Interim dividend

The directors declared a gross interim dividend of 755 cents per ordinary share for the 6 months ended 31 August 2019 (31 August 2018: 630 cents). The dividend will be paid on Monday, 4 November 2019. Capitec has 115 626 991 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act, 58 of 1962. The dividend amount, net of South African dividend tax of 20%, is 604 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

As a result of JSE system updates, our dividend dates have been moved out to:

Last day to trade cum dividend	Tuesday, 29 October 2019
Trading ex-dividend commences	Wednesday, 30 October 2019
Record date	Friday, 1 November 2019
Payment date	Monday, 4 November 2019

Share certificates may not be dematerialised or rematerialised from Wednesday, 30 October 2019 to Friday, 1 November 2019, both days inclusive.

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
26 September 2019

Summary consolidated statement of financial position

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Assets				
Cash, cash equivalents and money market funds	**37 150**	28 988	28	29 145
Financial investments	**14 464**	12 186	19	10 732
Term deposit investments	**5 511**	4 995	10	9 331
Net loans and advances	**47 403**	41 888	13	44 515
Other receivables	**1 371**	1 254	9	1 643
Net insurance receivable	**185**	257	(28)	236
Derivative assets	**5**	26	(81)	1
Financial assets – equity instruments at FVOCI	**100**	100		100
Current income tax asset	**–**	–		286
Interest in associates	**328**	305	8	317
Property and equipment	**2 557**	1 920	33	2 210
Right-of-use asset	**2 470**	–		–
Intangible assets	**439**	268	64	316
Deferred income tax asset	**1 613**	1 438	12	1 596
Total assets	**113 596**	93 625	21	100 428
Liabilities				
Derivative liabilities	**34**	11		15
Current income tax liability	**27**	73	(63)	–
Retail deposits	**81 375**	66 214	23	71 365
Other liabilities	**2 246**	1 897	18	2 203
Wholesale funding	**3 949**	5 769	(32)	5 078
Lease liability	**2 711**	–		–
Provisions	**78**	41	90	91
Total liabilities	**90 420**	74 005	22	78 752
Equity				
Capital and reserves				
Ordinary share capital and premium	**5 649**	5 649		5 649
Cash flow hedge reserve	**(25)**	1		(10)
Foreign currency translation reserve	**20**	40	(50)	5
Retained earnings	**17 457**	13 823	26	15 950
Share capital and reserves attributable to ordinary shareholders	**23 101**	19 513	18	21 594
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**75**	107	(30)	82
Total equity	**23 176**	19 620	18	21 676
Total equity and liabilities	**113 596**	93 625	21	100 428

Summary consolidated income statement

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Lending, investment and insurance income	**9 038**	8 429	7	17 227
Interest income	**8 124**	7 606	7	15 501
Loan fee income	**474**	455	4	931
Net insurance income	**440**	368	20	795
Lending and investment expenses	**(2 732)**	(2 317)	18	(4 729)
Interest expense	**(2 677)**	(2 187)	22	(4 510)
Loan fee expense	**(55)**	(130)	(58)	(219)
Net lending, investment and insurance income	**6 306**	6 112	3	12 498
Transaction fee income	**4 819**	4 084	18	8 474
Transaction fee expense	**(1 290)**	(937)	38	(2 010)
Net transaction income	**3 529**	3 147	12	6 464
Credit impairments	**(2 115)**	(2 542)	(17)	(4 450)
Funeral income	**107**	–		54
Other income	**11**	25		3
Net income	**7 838**	6 742	16	14 569
Operating expenses	**(4 003)**	(3 500)	14	(7 494)
Share of net profit of associates	**(3)**	9		2
Operating profit before tax	**3 832**	3 251	18	7 077
Income tax expense	**(879)**	(792)	11	(1 781)
Profit for the year	**2 953**	2 459	20	5 296
Earnings per share (cents)				
• Basic	**2 549**	2 122	20	4 571
• Diluted	**2 545**	2 118	20	4 562

Summary consolidated statement of other comprehensive income

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Profit for the year	**2 953**	2 459	20	5 296
Other comprehensive income that may subsequently be reclassified to profit and loss	**(15)**	27		17
Cash flow hedge reserve recognised during the year	**(26)**	49		5
Cash flow hedge reclassified to profit and loss for the year	**6**	(11)		19
Income tax relating to cash flow hedge	**5**	(11)		(7)
Foreign currency translation reserve recognised during the year	**15**	37	(59)	1
Total comprehensive income for the year	**2 953**	2 523	17	5 314

Reconciliation of attributable earnings to headline earnings

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Net profit attributable to equity holders	**2 953**	2 459	20	5 296
Preference dividend	**(4)**	(5)	(20)	(9)
Discount on repurchase of preference shares	**(1)**	–		(2)
Net profit after tax attributable to ordinary shareholders	**2 948**	2 454	20	5 285
Non-headline items:				
(Profit)/loss on disposal of property and equipment	**(7)**	8		9
Income tax charge – property and equipment	**2**	(1)		(3)
Derecognition of intangible assets	**–**	–		1
Headline earnings	**2 943**	2 461	20	5 292
Headline earnings per share (cents)				
• Basic	**2 545**	2 128	20	4 577
• Diluted	**2 540**	2 124	20	4 568

Summary consolidated statement of cash flows

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Cash flow from operating activities				
Cash flow from operations	**11 818**	9 867	20	16 383
Income taxes paid	**(552)**	(1 350)	(59)	(2 813)
	11 266	8 517	32	13 570
Cash flow from investing activities				
Acquisition of property and equipment	**(596)**	(385)	55	(911)
Disposal of property and equipment	**9**	2		9
Acquisition of intangible assets	**(207)**	(72)		(230)
Investment in term deposit investments	**–**	(4 936)		(10 557)
Redemption of term deposit investments	**3 735**	2 446	53	3 947
Acquisition of financial investments	**(8 822)**	(6 583)	34	(12 611)
Redemption of financial investments	**5 218**	6 268	(17)	13 655
Increase in short-term money market investments	**(8)**	(11)	(27)	(15)
Interest acquired in associates	**–**	(125)		(179)
	(671)	(3 396)	(80)	(6 892)
Cash flow from financing activities				
Dividends paid	**(1 298)**	(1 097)	18	(1 831)
Preference shares repurchased	**(8)**	(6)		(33)
Issue of institutional bonds and other funding	**500**	500		500
Redemption of institutional bonds and other funding	**(1 500)**	(500)		(1 119)
Payment of lease liabilities	**(105)**	–		–
Shares acquired for settlement of employee share options	**(242)**	(121)		(215)
Participants' contribution on settlement of options	**56**	–		63
	(2 597)	(1 224)		(2 635)
Net increase in cash and cash equivalents	**7 998**	3 897		4 043
Cash and cash equivalents at the beginning of the year	**29 113**	25 070	16	25 070
Cash and cash equivalents at the end of the year	**37 311**	28 967	29	29 113

Summary consolidated statement of changes in equity

R'm	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 28 February 2018	5 649	113	3	(27)	13 154	18 892
Changes on initial application of IFRS 9	–	–	–	–	(648)	(648)
Restated balance at 1 March 2018	5 649	113	3	(27)	12 506	18 244
Total comprehensive income for the year	–	–	2	17	5 295	5 314
Transactions with shareholders and directly recorded in equity	–	(31)	–	–	(1 851)	(1 882)
Ordinary dividend	–	–	–	–	(1 821)	(1 821)
Preference dividend	–	–	–	–	(9)	(9)
Employee share option scheme: value of employee services	–	–	–	–	32	32
Shares acquired for employee share options at cost	–	–	–	–	(215)	(215)
Proceeds on settlement of employee share options	–	–	–	–	63	63
Tax effect on share options	–	–	–	–	101	101
Preference shares repurchased	–	(31)	–	–	(2)	(33)
Balance at 28 February 2019	**5 649**	**82**	**5**	**(10)**	**15 950**	**21 676**
Total comprehensive income for the period	**–**	**–**	**15**	**(15)**	**2 953**	**2 953**
Transactions with shareholders and directly recorded in equity	**–**	**(7)**	**–**	**–**	**(1 446)**	**(1 453)**
Ordinary dividend	**–**	**–**	**–**	**–**	**(1 295)**	**(1 295)**
Preference dividend	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Employee share option scheme: value of employee services	**–**	**–**	**–**	**–**	**14**	**14**
Shares acquired for employee share options at cost	**–**	**–**	**–**	**–**	**(242)**	**(242)**
Proceeds on settlement of employee share options	**–**	**–**	**–**	**–**	**56**	**56**
Tax effect on share options	**–**	**–**	**–**	**–**	**26**	**26**
Preference shares repurchased	**–**	**(7)**	**–**	**–**	**(1)**	**(8)**
Balance at 31 August 2019	**5 649**	**75**	**20**	**(25)**	**17 457**	**23 176**

Notes to the unaudited financial results

1. Basis of preparation

The summary 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, 71 of 2008, as amended.

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS as issued by the International Accounting Standards Board (IASB), including IFRS 16 *Leases*, which was effective from 1 March 2019.

The accounting policies applied are consistent with the previous consolidated annual financial statements, with the exception of IFRS 16 *Leases*.

All other standards, interpretations and amendments to published standards applied for the first time during the current financial period, besides IFRS 16 *Leases*, 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, 94 of 1990, are available on the Capitec Bank website.

The summary unaudited consolidated interim financial statements were not reviewed or audited by the company's auditors.

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

2. Changes in significant accounting policies

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. 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.

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 (ROU) 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.

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

All leases that meet the criteria as either a lease of a low-value asset or a short-term lease are accounted for on a straight-line basis over the lease term.

Short-term leases are defined as leases that, at the commencement date, have a lease term of 12 months or less.

A low-value lease is defined as a lease where the value of the underlying asset is less than R150 000. The value is determined for a new asset, regardless of the age of the underlying asset being leased.

On transition to IFRS 16, the group elected to apply 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.

Lessees

As a lessee the group leases assets, including properties and IT equipment. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases.

Significant accounting policies

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 previously recognised prepaid or accrued lease payments relating to that lease) and increased with initial direct cost incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset. The group applies the cost model subsequent to the initial measurement of the right-of-use assets. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the remaining lease payments on the commencement date, discounted using the group's incremental borrowing rate. The lease liability is subsequently increased by interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate.

Critical accounting estimates and judgements in applying IFRS 16

Extension and termination options

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). Factors such as the importance of the underlying assets to our operations, undertaking of significant leasehold improvements and our past practice were taken into account to determine reasonable certainty.

The assessment is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the lessee.

Discount rate

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as at 1 March 2019. This incremental borrowing rate was derived from rates applicable to external bonds in issue.

Transition

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than a 12-month lease term
- Low-value assets. All leases that meet the criteria of a lease of a low-value asset are accounted for on a straight-line basis over the lease term
- Reliance on previous assessment of onerous leases
- Use a single discount rate for a portfolio of leases with reasonably similar characteristics
- Exclude initial direct costs for the measurement of the right-of-use asset at the date of initial application

Impacts on the financial statements on transition

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

	R'm
Right-of-use asset	2 603
Spreading reserve	147
Deferred tax asset	41
Lease liability	2 750

The total undiscounted operating lease commitments as at 28 February 2019 amount to R1.9 billion, the lease liability as at 1 March 2019 amounted to R2.7 billion. The differences primarily relate to extension periods previously not included in the lease commitments to the value of R2.0 billion, which increased the undiscounted operating lease commitments. The undiscounted operating lease commitments balance was discounted using the group's incremental borrowing rate curve which ranges from 7.4% to 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 R2 470 million of right-of-use assets and R2 711 million of lease liabilities as at 31 August 2019.

Also in relation to those leases under IFRS 16, the group recognised depreciation and interest costs, instead of operating lease expenses. During the 6 months ended 31 August 2019, the group recognised R199 million of depreciation in operating expenses and R133 million of interest costs in interest expense for these leases.

Earnings were negatively impacted by 50 cents per share for the 6 months to 31 August 2019 as a result of the adoption of IFRS 16.

Lessors

IFRS 16 did not introduce significant changes for lessors. As a result the accounting policies applicable to the group as a lessor are no different from those under IAS 17.

3. Net loans and advances

R'm	Stage 1 Up-to-date	Stage 2 Up-to-date loans and advances 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 Up-to-date that rescheduled from up-to-date (not yet rehabilitated)	Stage 3 Up-to-date that rescheduled from arrears (not yet rehabilitated)	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 2019									
Gross loans and advances	**45 311**	**3 284**	**856**	**1 305**	**1 009**	**1 496**	**6 991**	**–**	**60 252**
Cumulative provision	**(2 916)**	**(844)**	**(494)**	**(1 076)**	**(442)**	**(627)**	**(6 450)**	**–**	**(12 849)**
Net loans and advances	**42 395**	**2 440**	**362**	**229**	**567**	**869**	**541**	**–**	**47 403**
Provision %	**6.4**	**25.7**	**57.7**	**82.5**	**43.8**	**41.9**	**92.3**		**21.3**
Restated balance at 28 February 2019									
Gross loans and advances[2]	41 587	3 765	1 087	1 483	900	1 354	5 719	–	55 895
Cumulative provision[2]	(2 671)	(771)	(582)	(1 192)	(389)	(617)	(5 158)	–	(11 380)
Net loans and advances	38 916	2 994	505	291	511	737	561	–	44 515
Provision %	6.4	20.5	53.5	80.4	43.2	45.6	90.2		20.4
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

(1) *Includes rescheduled loans that are currently up to 1 month in arrears but have not rehabilitated*

(2) *At 28 February 2019, the gross carrying amount above did not include impaired interest on stage 3 advances. The gross carrying amount comprised 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 expected credit loss (ECL). In the current year, the gross carrying amount was updated to include all contractual cash flows before ECL. This is consistent with the definition of gross carrying amount in IFRS 9 and is aligned to industry practice under IFRS 9 to apply the definition not only to stage 1 and 2 advances, but also to stage 3 advances regardless of the income statement presentation. The gross carrying amount and cumulative provision has been grossed up by R1 016 million at 28 February 2019. There is no impact on the primary statements or the transitional balance sheet*

4. Commitments

	Unaudited August 2019 R'm	Unaudited August 2018 R'm	6 months August 2019/2018 %	Audited February 2019 R'm
Capital commitments approved by the board				
Contracted for:				
Property and equipment	**487**	698	**(30)**	572
Intangible assets	**114**	166	**(31)**	116
Not contracted for:				
Property and equipment	**569**	799	**(29)**	973
Intangible assets	**59**	186	**(68)**	440
	1 229	1 849	**(34)**	2 101

5. Fair values

In terms of IFRS 13 *Fair Value Measurement*, the fair value determined for disclosure purposes of loans and advances (level 3) was R46.9 billion (August 2018: R43.2 billion), retail deposits (level 2) was R85.3 billion (August 2018: R66.4 billion) and wholesale funding (level 2) was R3.6 billion (August 2018: R5.9 billion). The measured fair value of derivative assets (level 2) was valued at R4.5 million (August 2018: R25.9 million), available-for-sale investments (level 3) was R100 million (August 2018: R100 million) and derivative liabilities (level 2) was R34.2 million (August 2018: R11.4 million). The fair value of all other financial instruments equates to their carrying amount.

6. 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.

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Sponsor

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

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