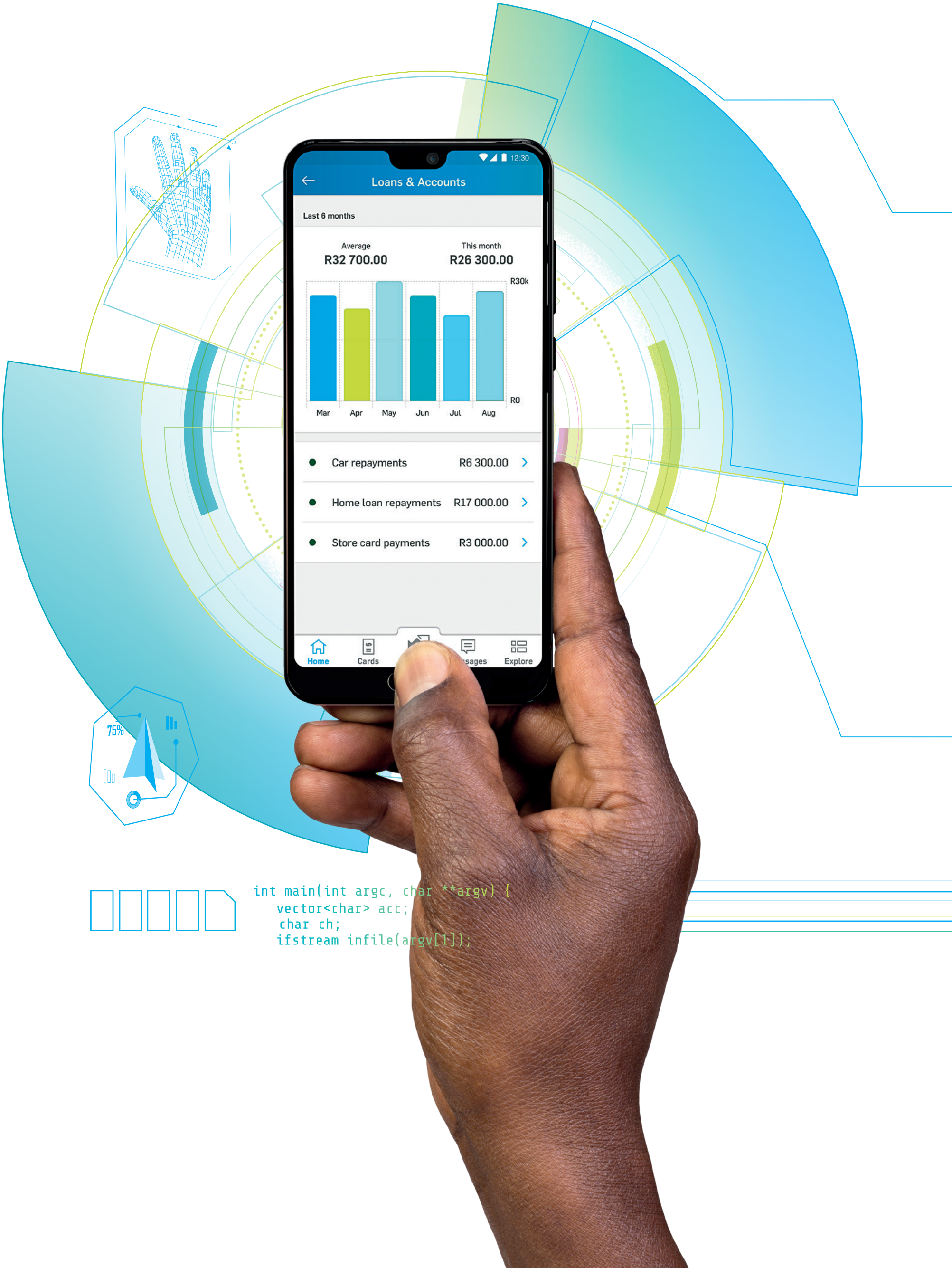
Audited summary financial statements

for the year ended 28 February 2021

CAPITEC BANK HOLDINGS LIMITED

Capitec Bank Holdings Limited ('Capitec' or 'the group')


12:30
Loans & Accounts
Last 6 months
Average
R32 700.00
This month
R26 300.00
R30k
R0
Mar
Apr
May
Jun
Jul
Aug
Car repayments
R6 300.00
Home loan repayments
R17 000.00
Store card payments
R3 000.00
Home
Cards
Explore
75%
int main(int argc, char **argv) {
vector<char> acc;
char ch;
ifstream infile(argv[1]);

Highlights

Headline earnings per share
-27%
to 3 966 cents

Headline earnings
-27%
to R4.586 billion

Headline earnings per share for the 6 months ended February 2021
+18%
to 3 404 cents

Headline earnings for the 6 months ended February 2021
+18%
to R3.936 billion

Total dividend per share
1 600
cents

Net transaction fee and funeral plan income to operating expenses
99%

Return on equity
17%

Active clients
+14%
to 15.8 million

Retail clients using digital channels
+28%
to 8.6 million

Active Capitec funeral plan policies
+33%
to 1.2 million

Capital adequacy ratio
37%

Employees
14 672

Key performance indicators

		2021	2020*	% change 2021/2020
Profitability				
Interest income on loans[1]	R'm	**13 401**	13 552	(1)
Interest income on investments	R'm	**3 143**	3 489	(10)
Total interest income	R'm	**16 544**	17 041	(3)
Net loan fee and insurance income	R'm	**1 863**	1 871	–
Total lending, investment and insurance income less loan fee expense	R'm	**18 407**	18 912	(3)
Interest expense	R'm	**(4 985)**	(5 680)	(12)
Net lending, investment and insurance income	R'm	**13 422**	13 232	1
Net transaction fee income	R'm	**8 708**	7 416	17
Other income	R'm	**114**	32	>100
Net foreign currency income	R'm	**111**	38	>100
Funeral plan income	R'm	**650**	413	57
Income from operations	R'm	**23 005**	21 131	9
Credit impairment charge[1]	R'm	**(7 825)**	(4 474)	75
Net income	R'm	**15 180**	16 657	(9)
Operating expenses	R'm	**(9 463)**	(8 612)	10
(Loss)/income from associates and joint venture	R'm	**(7)**	11	
Impairment of investment in associate	R'm	**(122)**	–	
Income before tax	R'm	**5 588**	8 056	(31)
Tax	R'm	**(1 130)**	(1 805)	(37)
Preference dividend	R'm	**(4)**	(7)	(43)
Discount on repurchase of preference shares	R'm	**(2)**	(1)	100
Earnings attributable to ordinary shareholders				
Basic	R'm	**4 452**	6 243	(29)
Headline	R'm	**4 586**	6 277	(27)
Net transaction fee and funeral plan income to net income	%	**62**	47	
Net transaction fee and funeral plan income to operating expenses	%	**99**	91	
Cost-to-income ratio	%	**41**	41	
Return on ordinary shareholders equity	%	**17**	28	
Earnings per share				
Attributable	cents	**3 850**	5 400	(29)
Headline	cents	**3 966**	5 428	(27)
Diluted attributable	cents	**3 848**	5 391	(29)
Diluted headline	cents	**3 963**	5 420	(27)
Dividends per share				
Interim	cents	**–**	755	
Final	cents	**1 600**	–	
Total	cents	**1 600**	755	
Dividend cover	times	**2.5**	7.2	
Assets				
Net loans and advances	R'm	**57 189**	62 043	(8)
Financial instruments at amortised cost[2]	R'm	**84 312**	59 439	42
Financial instruments at fair value through profit and loss (FVTPL)	R'm	**2 970**	1 504	97
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	R'm	**69**	101	(32)
Other	R'm	**11 967**	11 481	4
Total assets	R'm	**156 507**	134 568	16

			2021	2020*	% change 2021/2020
Liabilities					
Deposits and wholesale funding		R'm	**120 908**	103 343	17
Other		R'm	**5 684**	5 644	1
Total liabilities		R'm	**126 592**	108 987	16
Equity					
Shareholders' funds (total equity)		R'm	**29 915**	25 581	17
Capital adequacy ratio (CAR)		%	**37**	31	
Net asset value per ordinary share		cents	**25 872**	22 061	17
Share price		cents	**133 875**	129 999	3
Market capitalisation		R'm	**154 796**	150 314	3
Number of shares in issue		'000	**115 627**	115 627	–
Share options					
Number outstanding		'000	**552**	491	12
Number outstanding to shares in issue		%	**0.5**	0.4	
Average strike price		cents	**91 395**	70 889	29
Average time to maturity		months	**30**	21	
Operations					
Branches			**857**	864	(1)
Employees			**14 672**	14 590	1
Active clients		'000	**15 829**	13 887	14
ATMs, DNRs and CNRs					
Own			**2 660**	2 388	11
Partnership			**4 065**	3 264	25
Total			**6 725**	5 652	19
Capital expenditure		R'm	**837**	1 403	(40)
Credit sales					
Value of credit card disbursements/drawdowns		R'm	**10 039**	9 934	1
Value of access facility disbursements/ drawdowns		R'm	**6 398**	–	
Value of term loans advanced[3]		R'm	**14 262**	28 809	(50)
Value of credit facility disbursements/drawdowns		R'm	**206**	651	(68)
Value of mortgage loans advanced		R'm	**1 553**	509	>100
Value of other loans advanced		R'm	**674**	531	27
Value of overdraft disbursements/drawdowns		R'm	**45 120**	14 324	>100
Value of total loans advanced		R'm	**78 252**	54 758	43
Credit book					
Gross loans and advances		R'm	**75 026**	75 783	(1)
Up-to-date	Stage 1	R'm	**47 696**	57 626	(17)
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	**4 349**	3 616	20
Forward-looking SICR	Stage 2	R'm	**4 564**	954	>100
Total up-to-date		R'm	**56 609**	62 196	(9)
Arrears	Stage 2	R'm	**1 034**	1 200	(9)
Arrears	Stage 3	R'm	**1 904**	1 550	23

			2021	2020*	% change 2021/2020
Total arrears		R'm	**2 938**	2 750	7
Application for debt review within 6 months	Stage 3	R'm	**137**	83	66
COVID-19 reschedules	Stage 2	R'm	**1 267**	–	
COVID-19 reschedules	Stage 3	R'm	**61**	–	
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)	Stage 2	R'm	**172**	226	(24)
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[4]	Stage 3	R'm	**2 105**	1 130	86
Up-to-date that rescheduled from arrears (not yet rehabilitated)	Stage 2	R'm	**92**	71	30
Up-to-date that rescheduled from arrears (not yet rehabilitated)[4]	Stage 3	R'm	**2 403**	1 471	63
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**6 100**	2 898	>100
More than 3 months in arrears and legal status	Stage 3	R'm	**9 242**	7 856	18
Total provision for credit impairment		R'm	**17 837**	13 740	30
Net loans and advances		R'm	**57 189**	62 043	(8)
Total provision for credit impairments to stage 3 and stage 2 (excluding SICR) coverage		%	**97**	101	
Gross credit impairment charge[1]		R'm	**8 757**	5 737	53
Bad debts recovered		R'm	**932**	1 263	(26)
Net credit impairment charge[1]		R'm	**7 825**	4 474	75
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1]		%	**10.4**	6.3	
Total lending and insurance income (excluding investment income)[5]		R'm	**15 335**	15 517	(1)
Net credit impairment charge to total lending and insurance income (excluding investment income)[1][5]		%	**51.0**	28.8	
Deposits and wholesale funding					
Wholesale funding		R'm	**2 376**	3 694	(36)
Call savings		R'm	**78 113**	62 582	25
Fixed savings		R'm	**39 176**	36 183	8
Foreign currency deposits		R'm	**1 243**	884	41

* *2020 figures include Business bank for the 4 months ended February 2020. Business bank figures for 12 months are included in 2021.*

(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 debts written off by R1 779 million for this year (2020: R1 526 million).*

(2) *Cash, cash equivalents, money market funds and other financial investments are included here.*

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

(4) *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.*

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

Commentary

Our agility and embracing digitalisation allowed us to be more innovative and we continued to make banking easier for our clients during the lockdown and ensured that they would experience permanent benefits from the difficult time experienced during the past year.

Headline earnings

Headline earnings decreased by 27% to R4.6 billion (2020: R6.3 billion) and we generated a return on equity of 17% for our ordinary shareholders (2020: 28%). Headline earnings comprised R4.6 billion for the Retail bank and a loss of R1.0 million for the Business bank. The amortisation of the intangible assets created on acquisition of the Mercantile Bank group totalled R10 million and is included in the Business bank headline earnings.

For the first 6 months of the financial year, while the country was in lockdown, headline earnings decreased by 78% to R650 million compared to the prior year comparative period. During the second 6 months of the year ended February 2021, headline earnings amounted to R3.9 billion against our target of achieving similar headline earnings as during the 6 months to February 2020 (R3.3 billion). Headline earnings for the 6-month period ended February 2021 increased by 18% compared to the prior year comparative period.

Net transaction fee income increased by 17% year-on-year as our digital transformation journey continued despite the COVID-19 pandemic. Our credit life insurance product performed well and generated R965 million profit after tax, a decrease of only 2% compared to the prior year despite the increase in claims that resulted from the COVID-19 pandemic and not reinsuring the retrenchment risk since 1 May 2020. Funeral plan income increased by 57% year-on-year and totalled R650 million after tax as the number of active policies continued to increase and premium collections improved.

Our total active client base grew by approximately 160 000 clients per month and as at 28 February 2021, was 15.8 million (2020: 13.9 million).

Retail bank

Clients

The number of active Retail bank clients grew by 1.1 million during the 6 months ended February 2021, bringing the total number of Retail bank clients to 15.7 million. This represents an increase of 14% over the previous year (2020: 13.8 million).

Transact

Total net transaction fee income increased by 9% year-on-year from R7.4 billion to R8.1 billion. Transaction volumes increased by 17% to 5.3 billion. The average cost per transaction decreased from R1.62 in the comparative year to R1.52 for the 2021 financial year.

The COVID-19 pandemic presented the biggest challenge since our inception but it also gave us an opportunity to adapt and think differently. We saw a fundamental shift in how clients do their banking and we proactively enhanced our banking app with new functionalities.

A virtual card was designed for safer online shopping and there are no virtual card fees. The necessity for our clients to carry cash has been reduced. Using the Scan to pay functionality on our banking app to scan a QR code is easier, quicker and safer. Send Cash allows clients to send funds to anyone who doesn't have a bank account. The cash is conveniently collectable at any Capitec ATM or partner store.

We are the biggest digital bank in South Africa with 8.6 million active users of either the Capitec banking app, USSD channel or a combination of digital channels. As at the end of February 2021, active Capitec banking app users totalled 5.3 million. Active USSD users increased from 4.9 million users as at the end of February 2020 to 5.0 million users as at the end of February 2021. The total number of digital transactions performed grew by 36% to 1.1 billion. Clients performed 526 million banking app transactions (2020: 327 million) and 536 million USSD transactions (2020: 454 million) during the 2021 financial year.

Although card machine transaction volumes decreased by 6% for the 6 months ended August 2020 due to the lockdown, a recovery occurred during the 6 months ended February 2021. The number of transactions increased year-on-year by 6% to 1.0 billion (2020: 940 million).

We maintained the affordability of our products by not increasing digital transaction costs, debit order fees or the monthly administration fee on our Global One account in March 2021. This is the 3rd consecutive year without an increase. The cost of immediate payments via our app was reduced from R8.00 to R7.50 so that clients can conveniently perform instant realtime payments to clients of other banks.

We have partnered with Shell. All Capitec clients get 20 cents per litre back on fuel and 0.5% cash back on selected items in-store at participating Shell service stations when paying with a Capitec card.

Save

Retail deposits grew by R17.8 billion to R105.3 billion (2020: R87.5 billion). As a result, interest paid to clients on retail call deposits, fixed deposits and credit cards amounted to R4.1 billion (2020: R4.7 billion) despite the significant decrease in the repo rate from 6.25% per annum in March 2020 to 3.50% as at the end of February 2021. Our clients still earn a minimum of 2.25% on call savings and positive balances on credit cards. Fixed deposits earn up to 7.71%.

Credit

Despite a challenging year, we continued innovating. The access facility, launched in May 2020, provides clients with access to revolving credit whenever they need it. It is an affordable alternative to a term loan as clients only pay when they use it. There is no interest or monthly service fee if the access facility has not been used. The product is more flexible than a traditional term loan as the repayment amount or period can be increased or decreased.

Capitec Home Loans, in association with SA Home Loans, provides clients with competitive interest rates and a discount of up to 50% on conveyancing fees. The application process has been simplified with an online application that can be tracked in realtime. The product was launched in November 2020 and 300 loans were granted and booked in SA Home Loans by the end of February 2021.

Loan sales and disbursements

Total loans advanced and disbursements made decreased by 25% year-on-year to R29.3 billion (2020: R39.1 billion). Term loan sales decreased by 55% to R13.0 billion, while credit card disbursements decreased by 1% to R9.7 billion. Disbursements of the new access facility totalled R6.4 billion for the 10 months since launch and credit facility sales amounted to R0.2 billion.

Credit granting criteria were tightened during lockdown and, as a result, only 40% of total sales for the financial year were made in the 6 months ended August 2020 (August 2019: 46%).

As lockdown restrictions eased and economic activity began to increase, lending criteria were proactively managed. Combined with increased accessibility to the branch network for clients following lockdown, this led to improved sales during the 6 months ended February 2021. During the initial lockdown, only 50% of branches were open but by the end of August 2020, all branches had resumed operations.

Economic indicators, media reports, credit bureau data and branch area intelligence will continue to be closely monitored by sector, industry and income level to manage lending criteria and credit risk.

Net credit impairment charge

Payment relief was granted to clients affected by the lockdown from 27 March 2020 to 19 July 2020. COVID-19-related reschedules took the form of payment breaks and variable payment reschedules. Relief was granted based on predetermined criteria and balances of R7.5 billion were rescheduled. Subsequent to the middle of July 2020, rescheduling rules were tightened and the value of reschedules granted during the rest of the financial year normalised.

It was anticipated that COVID-19-related rescheduled clients' payment behaviour would be better than that of other rescheduled clients. This was in fact the case, with payment success on payment breaks and variable reschedules exceeding 80% and 90%, respectively, in the first month in which payments were due.

In order to manage risk proactively and encourage good payment behaviour by clients who took payment relief, we undertook an interest refund programme. An interest refund of 50% of the interest charged during the 3-month payment break or variable payment term was refunded into the client's loan account if 6 consecutive successful payments were made. If 12 consecutive successful payments are made, the remaining 50% of the interest charged during the 3-month period will be refunded in the same way. The total amount currently included in the credit impairment charge in respect of these refunds is R404 million. In terms of IFRS 9 Financial Instruments, this amount was treated as a loan modification loss. An amount of R211 million has already been refunded to clients.

The impact of the COVID-19 pandemic on the South African economy was taken into consideration in our forward-looking view. The forward-looking adjustments in our models therefore considered uncertainty surrounding the timing of future defaults related to the pandemic's impact on the economy, increased default due to unemployment and other macroeconomic variables. Negative, baseline and positive scenarios were determined based on independently sourced economic data and these scenarios were weighted in order to determine a probabalistic view of the economy going forward. This view was used in calculating the expected credit loss (ECL) charged to the income statement.

An amount of R2.5 billion of the gross credit impairment charge for the year relates to our forward-looking view of the economy. For the 6 months ended August 2020, this amount was R4.2 billion. As the COVID-19-related reschedules rehabilitated, payment behaviour remained good and the collections environment stabilised. The required credit impairment provision therefore decreased during the 6 months ended February 2021.

The table below reflects the change in write-off, movement in credit impairment provision and bad debts recovered on loans and advances.

R'm	Full year ended Feb 2021	Full year ended Feb 2020	6 Months ended Feb 2021	6 Months ended Aug 2020	6 Months ended Feb 2020
Bad debts written off[(1)]	**6 311**	5 106	**3 427**	2 884	3 007
Movement in provision for credit impairments[(1)]	**1 978**	517	**(1 434)**	3 412	(187)
Gross credit impairment charge[(2)]	**8 289**	5 623	**1 993**	6 296	2 820
Bad debts recovered[(3)]	**(929)**	(1 263)	**(454)**	(475)	(575)
Net credit impairment charge	**7 360**	4 360	**1 539**	5 821	2 245

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

[(2)] *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and the credit impairment charge by R1 779 million for this year (2020: R1 526 million).*

[(3)] *Bad debts recovered include R199 million (2020: R67 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

Loan book

The gross loan book decreased by 2% from R65.4 billion to R64.0 billion. The gross credit card book grew by 17% to R6.8 billion (2020: R5.8 billion).

The coverage ratio on the total loan book was 26.9% (2020: 20.5%).

R'000	Stage 1 Up-to-date	Stage 2 Up-to-date loans with SICR and applied for debt review >6 months	Stage 2 Forward-looking SICR[(2)]	Stage 2 Up to 1 month in arrears	Stage 2 COVID-19 reschedules[(1)]	Stage 3 COVID-19 reschedules[(1)]	Stage 3 2 and 3 months in arrears	Stage 3 Rescheduled from up-to-date (not yet rehabilitated)	Stage 3 Rescheduled from arrears (not yet rehabilitated)	Stage 3 More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 28 February 2021											
Gross loans and advances	38 711	4 220	4 564	1 008	392	24	1 904	2 105	2 403	8 655	63 986
Provision for credit impairments (ECL)	(3 638)	(1 262)	(1 037)	(701)	(136)	(7)	(1 578)	(894)	(837)	(7 094)	(17 184)
Net loans and advances	35 073	2 958	3 527	307	256	17	326	1 211	1 566	1 561	46 802
ECL coverage (%)	9.4	29.9	22.7	69.5	34.7	29.2	82.9	42.5	34.8	82.0	26.9

R'000	Stage 1	Stage 2				Stage 3					
	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[2]	Up to 1 month in arrears	COVID-19 reschedules[1]	COVID-19 reschedules[1]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 29 February 2020											
Gross loans and advances	48 311	3 492	954	1 172	–	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(863)	(198)	(651)	–	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	2 629	756	521	–	–	420	675	904	1 101	52 013
ECL coverage (%)	6.8	24.7	20.8	55.5	–	–	72.9	40.3	38.5	85.0	20.5

(1) *COVID-19-related reschedules prior to the Prudential Authority Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*

(2) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two columns.*

The stage 1 up-to-date book decreased to R38.7 billion (2020: R48.3 billion). Balances in arrears by between 1 to 3 months increased to R2.9 billion (2020: R2.7 billion). Balances in arrears by more than 3 months (including debt review and other legal recovery states) amounted to R8.7 billion (2020: R7.4 billion). The coverage ratio on these loans decreased to 82.0% (2020: 85.0%).

As at February 2021, unrehabilitated COVID-19-related reschedules amounted to R416 million and were provided at an average provision percentage of 34.4% (August 2020: 32.2%). Further balances of R1.9 billion relating to COVID-19-related reschedules that were subsequently rescheduled again are included in reschedules not yet rehabilitated in stage 3.

Following a drop to 58.8% of the total gross loan book as at August 2020, the stage 1 book now comprises 60.5% of the total loan book (2020: 73.8%). Balances in arrears comprise 4.6% of the book as at February 2021 compared to 4.2% as at February 2020. Loans in default, at 13.5%, comprise a higher percentage of the book (2020: 11.2%).

Indicates information that was audited.

Credit life insurance

Credit life policies cover clients against the risk of retrenchment, death, permanent or temporary disability and the inability to earn an income. Net insurance income decreased by 2% to R965 million (2020: R981 million).

Premium income increased by 17% from R2.4 billion to R2.8 billion. The increase is attributable to an increase in premium rates. The premium rates were increased in response to the increased risk of retrenchment and death created by the COVID-19 pandemic.

We did not renew the retrenchment reinsurance agreements that were in place to the end of April 2020. As a result, we are responsible for settling retrenchment claims with a retrenchment date subsequent to 30 April 2020. All valid claims with a retrenchment date before 1 May 2020 were and will be settled by the reinsurer.

For the period from 1 May 2020 to 31 July 2020, we were not reinsured for death risk and we are therefore also responsible for settling all death claims with a death event date during this period. We reinsured the entire loan book for death events from 1 August 2020 to 30 April 2021.

Going forward, we will assess the relative benefits of self-insurance versus reinsurance.

The change in the insurance model resulted in the reinsurance premium expense decreasing by 55% from R918 million to R416 million.

Total claims paid for the year, before reinsurance recoveries, amounted to R1 443 million (2020: R779 million). Reinsurance recoveries totalled R546 million (2020: R715 million). We therefore carried R897 million in claims.

Retrenchment claims amounted R1.0 billion compared to R498 million for the year ended February 2020. The number of claims was affected by the COVID-19 pandemic which resulted in an increase in business failures and retrenchments in South Africa. Death claims increased from R253 million to R414 million partly due to the impact of the pandemic.

As at the end of February 2021, we hold an incurred but not yet reported (IBNR) provision of R267 million for retrenchments. Due to the uncertainty surrounding the timing of the full impact of the pandemic, a cautious approach was applied in determining the IBNR.

Capitec funeral plan

Funeral plan income increased by 57% year-on-year to R650 million (2020: R413 million). Active policies numbered 1.2 million as at the end of February 2021 (2020: 0.9 million). We issued on average 85 000 policies per month during the year.

Clients are offered lower premiums on policies issued via the banking app. In total, 16% of policies were issued via the banking app during the 2021 financial year (2020: 15%).

The average premiums and collections are in line with our expectations. Persistency is calculated using the number of policies that remain active 3 months after commencement date. Persistency is at 41% (February 2020: 48%; August 2020: 42%).

Business bank

The year under review was one of consolidation, integration and investment to drive the future sustainable growth of the Business bank. This, combined with the negative impact of the COVID-19 pandemic, and our cautious approach to raising credit losses, resulted in the Business bank making a loss of R1.0 million for the year.

Clients

The Business bank's client base increased by 33% to 90 534 as our strategy to build the bank got underway.

Credit

The Business bank's loan book remained static given the prevailing economic environment exacerbated by the COVID-19 pandemic.

A total of 1 017 clients were assisted with payment breaks and moratoriums on balances totalling R4.2 billion. As at the end of February 2021, the outstanding balance on the payment breaks and moratoriums amounted to R3.6 billion.

We participated in the COVID-19 Loan Guarantee Scheme through which loans, substantially guaranteed by government, were advanced to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme, through the banking industry, can be used by the client for operational expenses such as salaries, rent and lease agreements and contracts with suppliers. A total of R659 million was disbursed to eligible clients. As at the end of February, outstanding balances amounted to R636 million.

The net credit impairment charge for the 12 months ended 28 February 2021 amounted to R405 million. This includes a COVID-19 forward-looking charge of R89 million. The provision coverage ratio is 5.9% (2020: 3.0%).

Cost-to-income ratio

The cost-to-income ratio remained at 41% despite the impact of the COVID-19 pandemic on income. Operating expenses increased by 10% compared to the comparative period. The year ended February 2020 included Business bank expenses for 4 months compared to 12 months for the year ended February 2021.

Cash handling and cash-in-transit expenses decreased by 10% year-on-year due to diminished demand for cash during the pandemic as well as the switch to digital banking by clients. We implemented paperless banking and this resulted in efficiencies and a cost saving of R60 million on printing.

All employees were considered for salary increases during the 2021 financial year and there were no retrenchments. The number of employees remained stable at 14 672 (2020: 14 590). Due to the decrease in headline earnings and the small increase in the share price during the year (2021: R1 338.75; 2020: R1 299.99), the incentive expense reduced by 38%.

Credit ratings

S&P Global ratings affirmed the sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook on 20 November 2020. 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+.

Capital and liquidity

As at 28 February 2021, we remain well capitalised with a CAR of 36.7%.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 459% and the NSFR is 221% as a result of our conservative liquidity strategy. The Basel 3 requirement for the NSFR is 100%.

The Prudential Authority issued Directive 1 of 2020 on 31 March 2020 temporarily relaxing the minimum LCR requirement from 100% to 80%.

Tax

The tax attributable to the profits on cell captives is deducted from the net insurance income and funeral plan income and excluded from the tax expense line. This has resulted in the reported effective tax rate decreasing to 20.2% for the current year (2020: 22.4%). Together with the tax paid in the cell captives, the effective tax rate for the group is 28.3% (2020: 27.4%).

Employees

We pay tribute to all employees who had to work, in a tough physical environment, despite the COVID-19 pandemic. The courageous and selfless behaviour of our client-facing employees is truly appreciated.

Many employees worked from home during the COVID-19 pandemic period and call centres were operated remotely using laptops. Employees are returning to the office in a responsible manner.

Prospects

On 1 March 2021, we officially celebrated our 20th anniversary. We look back on how we have transformed banking and it inspires us to continue to improve the financial lives of our clients. Agility and digitalisation will be the focus of our efforts to make banking simpler, more affordable, more accessible and more personalised.

Our strategy remains to shift clients towards a digital banking platform, underpinned by self-service. Our focus will be on digital e-commerce product opportunities and driving client behaviour.

We are excited about the Business bank offering being enhanced into a more efficient, client-friendly market competitor.

Dividend

A final gross dividend of 1 600 cents per ordinary share (2020: Rnil) was declared on 12 April 2021, bringing the total dividend for the 2021 financial year to 1 600 cents per share (2020: 755 cents per share). There are 115 626 991 ordinary shares in issue.

The final 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 1 280 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 4 May 2021
Trading *ex*-dividend commences	Wednesday, 5 May 2021
Record date	Friday, 7 May 2021
Payment date	Monday, 10 May 2021

Share certificates may not be dematerialised or rematerialised from Wednesday, 5 May 2021 to Friday, 7 May 2021, both days inclusive.

In terms of the company's memorandum of incorporation, dividends will only be transferred electronically to the bank accounts of certificated shareholders, as dividend cheques are no longer issued. In instances where certificated shareholders do not provide the transfer secretaries with their banking details, the dividend will not be forfeited, but will be marked as 'unclaimed' in the dividend register until the shareholder provides the transfer secretary with the relevant banking details for payout.

The report from the chief financial officer is available at **www.capitecbank.co.za**.

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
13 April 2021

Summary consolidated statement of financial position

As at 28 February 2021

R'm	Audited February 2021	Audited February 2020
Assets		
Cash, cash equivalents and money market funds	**49 318**	42 232
Financial assets at fair value through profit or loss (FVTPL)	**2 970**	1 504
Financial investments at amortised cost	**34 994**	17 207
Term deposit investments	**313**	–
Net loans and advances	**57 189**	62 043
Other receivables	**1 637**	2 047
Net insurance receivable	**987**	217
Derivative assets	**28**	37
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	**69**	101
Current income tax asset	**–**	5
Interest in joint venture	**377**	461
Property and equipment	**2 946**	3 017
Right-of-use assets	**2 053**	2 460
Intangible assets including goodwill	**1 481**	1 374
Deferred income tax asset	**2 145**	1 863
Total assets	**156 507**	134 568
Liabilities		
Derivative liabilities	**66**	61
Current income tax liability	**160**	14
Deposits	**118 532**	99 649
Wholesale funding	**2 376**	3 694
Other liabilities	**2 818**	2 530
Lease liabilities	**2 501**	2 795
Employee benefit liabilities	**139**	171
Deferred income tax liability	**–**	73
Total liabilities	**126 592**	108 987
Equity		
Capital and reserves		
Ordinary share capital and premium	**5 649**	5 649
Cash flow hedge reserve	**(29)**	(21)
Other reserves	**(36)**	(5)
Foreign currency translation reserve	**50**	30
Retained earnings	**24 225**	19 855
Share capital and reserves attributable to ordinary shareholders	**29 859**	25 508
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**56**	73
Total equity	**29 915**	25 581
Total equity and liabilities	**156 507**	134 568

Summary consolidated income statement

Year ended 28 February 2021

R'm	Audited February 2021	Audited February 2020
Lending, investment and insurance income	**18 478**	19 002
Interest income	**16 544**	17 041
Loan fee income	**969**	980
Net insurance income	**965**	981
Lending and investment expenses	**(5 056)**	(5 770)
Interest expense	**(4 985)**	(5 680)
Loan fee expense	**(71)**	(90)
Net lending, investment and insurance income	**13 422**	13 232
Transaction fee income*	**12 040**	10 263
Transaction fee expense	**(3 332)**	(2 847)
Net transaction income	**8 708**	7 416
Foreign currency income	**409**	38
Foreign currency expense	**(298)**	–
Net foreign currency income	**111**	38
Funeral plan income	**650**	413
Other income	**114**	32
Credit impairments	**(7 825)**	(4 474)
Net income	**15 180**	16 657
Operating expenses	**(9 463)**	(8 612)
Share of net (loss)/profit of associates and joint ventures	**(7)**	11
Impairment of investment in associate	**(122)**	–
Operating profit before tax	**5 588**	8 056
Income tax expense	**(1 130)**	(1 805)
Profit for the year	**4 458**	6 251
Earnings per share (cents)		
Basic	**3 850**	5 400
Diluted	**3 848**	5 391

* *Transaction fee income consists of: card commission income in the amount of R2.8 billion (2020: R1.8 billion), account transaction fees in the amount of R7.0 billion (2020: R7.0 billion) and other banking fees in the amount of R2.2 billion (2020: R1.5 billion).*

Summary consolidated statement of other comprehensive income

Year ended 28 February 2021

R'm	Audited February 2021	Audited February 2020
Profit for the year	**4 458**	6 251
Other comprehensive income that may subsequently be reclassified to profit or loss	**12**	14
Cash flow hedge reserve recognised during the year	**(58)**	(32)
Cash flow hedge reclassified to profit and loss for the year	**47**	16
Income tax relating to cash flow hedge	**3**	5
Foreign currency translation reserve recognised during the year	**20**	25
Other comprehensive income that will not subsequently be reclassified to profit or loss	**(31)**	(5)
Remeasurement of defined benefit obligation	**–**	1
Loss on remeasurement to fair value of financial assets	**(31)**	(7)
Income tax thereon	**–**	1
Total comprehensive income for the year	**4 439**	6 260

Reconciliation of attributable earnings to headline earnings

Year ended 28 February 2021

R'm	Audited February 2021	Audited February 2020
Net profit after tax	**4 458**	6 251
Preference dividend	**(4)**	(7)
Discount on repurchase of preference shares	**(2)**	(1)
Net profit after tax attributable to ordinary shareholders	**4 452**	6 243
Non-headline items:		
Taxable (profit)/loss on disposal of property and equipment	**(3)**	46
Non-tax deductible loss on disposal of property and equipment	**14**	–
Income tax charge – property and equipment	**1**	(13)
Derecognition of intangible assets	**–**	1
Impairment of associate	**122**	–
Headline earnings	**4 586**	6 277
Basic headline earnings per share (cents)	**3 966**	5 428
Diluted headline earnings per share (cents)	**3 963**	5 420

Summary consolidated statement of changes in equity

Year ended 28 February 2021

R'm	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Total
Balance as at 28 February 2019	5 649	82	5	(10)	–	15 950	21 676
Total comprehensive income for the year	–	–	25	(11)	(5)	6 251	6 260
Transactions with shareholders and directly recorded in equity	–	(9)	–	–	–	(2 346)	(2 355)
Ordinary dividend	–	–	–	–	–	(2 168)	(2 168)
Preference dividend	–	–	–	–	–	(7)	(7)
Employee share option scheme: value of employee services	–	–	–	–	–	28	28
Shares acquired for employee share options at cost	–	–	–	–	–	(294)	(294)
Proceeds on settlement of employee share options	–	–	–	–	–	79	79
Tax effect on share options	–	–	–	–	–	16	16
Preference shares repurchased	–	(9)	–	–	–	–	(9)
Balance as at 29 February 2020	**5 649**	**73**	**30**	**(21)**	**(5)**	**19 855**	**25 581**
Total comprehensive income for the year			**20**	**(8)**	**(31)**	**4 458**	**4 439**
Transactions with shareholders and directly recorded in equity	**–**	**(17)**	**–**	**–**	**–**	**(88)**	**(105)**
Ordinary dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Preference dividend	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Employee share option scheme: value of employee services	**–**	**–**	**–**	**–**	**–**	**32**	**32**
Shares acquired for employee share options at cost	**–**	**–**	**–**	**–**	**–**	**(160)**	**(160)**
Proceeds on settlement of employee share options	**–**	**–**	**–**	**–**	**–**	**72**	**72**
Tax effect on share options	**–**	**–**	**–**	**–**	**–**	**(25)**	**(25)**
Preference shares repurchased	**–**	**(17)**	**–**	**–**	**–**	**(3)**	**(20)**
Balance as at 28 February 2021	**5 649**	**56**	**50**	**(29)**	**(36)**	**24 225**	**29 915**

Summary consolidated statement of cash flows

Year ended 28 February 2021

R'm	Audited February 2021	Audited February 2020
Cash flow from operating activities		
Cash flow from operations*	**31 087**	18 176
Income tax paid	**(1 358)**	(1 772)
	29 729	16 404
Cash flow from investing activities		
Acquisition of property and equipment	**(543)**	(1 140)
Disposal of property and equipment	**10**	14
Acquisition of intangible assets	**(294)**	(263)
Investment in term deposit investments	**(3 276)**	–
Redemption of term deposit investments	**2 976**	9 056
Acquisition of financial investments at amortised cost	**(38 850)**	(16 494)
Redemption of financial investments at amortised cost	**21 027**	11 173
Acquisition of financial assets at FVTPL	**(1 461)**	(1 500)
Redemption of financial assets at FVTPL	**–**	5
Decrease in short-term money market investments	**14**	10
Interest acquired in associates and joint ventures	**(25)**	(107)
Acquisition of subsidiary net of cash acquired	**(55)**	1 037
	(20 477)	1 791
Cash flow from financing activities		
Dividends paid	**(6)**	(2 175)
Preference shares repurchased	**(20)**	(9)
Issue of institutional bonds and other funding	**–**	500
Redemption of institutional bonds and other funding	**(1 807)**	(2 962)
Payment of lease liabilities	**(248)**	(246)
Shares acquired for settlement of employee share options	**(160)**	(294)
Participants' contribution on settlement of options	**72**	79
	(2 169)	(5 107)
Effect of exchange rate changes on cash and cash equivalents	**17**	8
Net increase in cash and cash equivalents	**7 100**	13 096
Cash and cash equivalents at the beginning of the year	**42 209**	29 113
Cash and cash equivalents at the end of the year	**49 309**	42 209

* *Includes cash inflow from interest received of R16.7 billion (2020: R17.0 billion) and cash outflow from interest paid of R5.0 billion (2020: R5.7 billion).*

Notes to the summary financial statements

Year ended 28 February 2021

1. Basis of preparation

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

The accounting policies applied in the preparation of the 2021 consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those applied in the 2020 consolidated financial statements, other than for the addition of a policy to account for business combinations under common control. Under this policy, the acquisition by a wholly owned subsidiary, Capitec Bank Limited, of the assets and liabilities of another wholly owned subsidiary, Mercantile Bank Limited, on 1 December 2020 was stated at predecessor carrying values by Capitec Bank Limited.

In calculating the ECL for the year, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historical data is used to project ECL.

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

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

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

2. Net loans and advances

Retail bank

R'm	Stage 1	Stage 2				Stage 3					
	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[3]	Up to 1 month in arrears	COVID-19 reschedules[2]	COVID-19 reschedules[2]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 28 February 2021											
Gross loans and advances	**38 711**	**4 220**	**4 564**	**1 008**	**392**	**24**	**1 904**	**2 105**	**2 403**	**8 655**	**63 986**
Provision for credit impairments (ECL)	**(3 638)**	**(1 262)**	**(1 037)**	**(701)**	**(136)**	**(7)**	**(1 578)**	**(894)**	**(837)**	**(7 094)**	**(17 184)**
Net loans and advances	**35 073**	**2 958**	**3 527**	**307**	**256**	**17**	**326**	**1 211**	**1 566**	**1 561**	**46 802**
ECL coverage (%)[1]	**9.4**	**29.9**	**22.7**	**69.5**	**34.7**	**29.2**	**82.9**	**42.5**	**34.8**	**82.0**	**26.9**
Balance as at 29 February 2020											
Gross loans and advances	48 311	3 492	954	1 172	–	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(863)	(198)	(651)	–	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	2 629	756	521	–	–	420	675	904	1 101	52 013
ECL coverage (%)[1]	6.8	24.7	20.8	55.5	–	–	72.9	40.3	38.5	85.0	20.5

(1) *The provision percentage is calculated before rounding, as derived from the audited consolidated financial statements.*

(2) *COVID-19-related reschedules prior to the Prudential Authority Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*

(3) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two columns.*

Business bank

R'm	Stage 1		Stage 2					Stage 3		
	Up-to-date	Up to 1 month in arrears	Up-to-date loans SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[2]	COVID-19 reschedules[2]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
Balance as at 28 February 2021										
Gross loans and advances	**8 895**	**90**	**129**	**26**	**172**	**92**	**875**	**37**	**724**	**11 040**
Provision for credit impairments (ECL)	**(203)**	**(1)**	**(14)**	**(5)**	**(11)**	**(10)**	**(98)**	**(6)**	**(305)**	**(653)**
Net loans and advances	**8 692**	**89**	**115**	**21**	**161**	**82**	**777**	**31**	**419**	**10 387**
ECL coverage (%)[1]	**2.3**	**1.5**	**10.4**	**19.4**	**6.5**	**10.9**	**11.3**	**13.3**	**42.2**	**5.9**
Balance as at 29 February 2020										
Gross loans and advances	9 230	85	124	28	226	71	–	–	581	10 345
Provision for credit impairments (ECL)	(84)	(1)	(11)	(4)	(16)	(11)	–	–	(188)	(315)
Net loans and advances	9 146	84	113	24	210	60	–	–	393	10 030
ECL coverage (%)[1]	0.9	0.7	8.6	15.9	6.9	15.5	–	–	32.5	3.0

[(1)] *The provision percentage is calculated before rounding, as derived from the audited consolidated financial statements.*

[(2)] *COVID-19-related reschedules prior to the Prudential Authority Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*

3. Commitments and contingent liabilities

R'm	Audited February 2021	Audited February 2020
Capital commitments – approved by the board		
Contracted for:		
Property and equipment	**264**	254
Intangible assets	**134**	94
Not contracted for:		
Property and equipment	**676**	501
Intangible assets	**257**	128
	1 331	977
Loan commitments	**5 139**	1 825
Retail	**4 924**	1 522
Business	**215**	303
Guarantees – business (property bonds)	**582**	639
	5 721	2 464
Contingent liabilities		
VAT	**27**	27

4. Fair values

In terms of IFRS 13 *Fair Value Measurement*, the fair value determined for disclosure purposes of Retail bank loans and advances (level 3) was R47.6 billion (2020: R52.2 billion), Business bank loans and advances was R10.4 billion (2020: R10.0 billion), banking deposits (level 2) was R118.5 billion (2020: R100.1 billion), and wholesale funding (level 2) was R2.4 billion (2020: R3.7 billion). The measured fair value of financial assets at FVTPL was R3.0 billion (2020: R1.5 billion), derivative assets (level 2) were valued at R28.0 million (2020: R37.4 million), financial instruments at FVOCI (level 3) was R69.3 million (2020: R101.0 million) and derivative liabilities (level 2) was R65.6 million (2020: R61.0 million). The fair value of financial investments at amortised was R34.8 billion (2020: R17.2 billion). The fair value of all other financial instruments equates to their carrying amount. There were no transfers between levels.

5. Segmental analysis

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

The CODM identified two operating segments – retail and business banking within the South African economic environment. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

The CODM regularly reviews the operating results of Retail and Business bank 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 bank

- Transactional banking services
- Loan products that are granted to retail clients. There are 4 different loan products granted, namely term loans, credit facilities, credit cards and access facilities
- Insurance income from the sale of credit life insurance policies
- Profit sharing arrangements with regard to the funeral insurance policies sold by the group.

Business bank

- Loan products that are granted to Business bank clients. There are 5 different loan products granted, namely term loans, mortgage loans, overdrafts, instalment sales and leases and credit cards
- Treasury products include foreign exchange spot trades, foreign exchange forward contracts, vanilla foreign exchange options and money market call or term deposits. Foreign currency income is disclosed on the face of the income statement.

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

5. Segmental analysis continued

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

	2021			2020		
R'm	Retail	Business*	Total	Retail	Business*	Total
Lending, investment and insurance income	17 498	1 099	18 478	18 537	479	19 002
Interest income on lending	12 531	870	13 401	13 196	356	13 552
Interest income on investments[2]	3 037	225	3 143	3 385	118	3 489
Loan fee income	965	4	969	975	5	980
Net insurance income	965	–	965	981	–	981
Lending and investment expenses	(4 679)	(496)	(5 056)	(5 534)	(250)	(5 770)
Interest expense[2]	(4 608)	(496)	(4 985)	(5 444)	(250)	(5 680)
Loan fee expense	(71)	–	(71)	(90)	–	(90)
Net lending, investment and insurance income	12 819	603	13 422	13 003	229	13 232
Transaction fee income	10 892	1 148	12 040	10 095	168	10 263
Transaction fee expense	(2 798)	(534)	(3 332)	(2 736)	(111)	(2 847)
Net transaction income	8 094	614	8 708	7 359	57	7 416
Foreign currency income	–	409	409	–	38	38
Foreign currency expense	–	(298)	(298)	–	–	–
Net foreign exchange income	–	111	111	–	38	38
Funeral plan income	650	–	650	413	–	413
Other income	111	3	114	19	13	32
Credit impairments	(7 420)	(405)	(7 825)	(4 360)	(114)	(4 474)
Net income	14 254	926	15 180	16 434	223	16 657
Operating expense	(8 542)	(907)	(9 449)	(8 392)	(216)	(8 608)
Amortisation of intangible assets – core deposits and client relationships[1]	–	–	(14)	–	–	(4)
Share of net (loss)/profit of associates and joint ventures	(7)	–	(7)	11	–	11
Impairment of investment in associate	(122)	–	(122)	–	–	–
Operating profit before tax	5 583	19	5 588	8 053	7	8 056
Income tax expense	(1 114)	(20)	(1 134)	(1 802)	(4)	(1 806)
Tax on amortisation of intangible assets[1]	–	–	4	–	–	1
Profit/(loss) for the year[1]	4 469	(1)	4 458	6 251	3	6 251

R'm	2021 Retail	2021 Business*	2021 Total	2020 Retail	2020 Business*	2020 Total
Assets						
Net loans and advances	**46 802**	**10 387**	**57 189**	52 013	10 030	62 043
Other[2]	**95 897**	**7 449**	**98 389**	67 854	5 720	71 637
Acquisition of Mercantile	**–**	**–**	**929**	–	–	888
Goodwill[1]	**–**	**–**	**849**	–	–	795
Intangible asset – core deposit intangible[1]	**–**	**–**	**66**	–	–	76
Intangible asset – client relationships[1]	**–**	**–**	**14**	–	–	17
Total assets[2]	**142 699**	**17 836**	**156 507**	119 867	15 750	134 568

(1) *Consolidation entries not disclosed in either segment.*

(2) *The Retail and Business bank assets include an amount of R5 billion (2020: R1.9 billion) in investments that eliminates against liabilities at a group level. Interest on the investment amounted to R143 million (2020: R14 million), and is disclosed in retail interest expenses and business interest on investments for 2020.*

* *2020 figures include Business bank for the 4 months ended February 2020. Business bank figures for 12 months are included in 2021.*

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

Capitec Bank Limited holds shares in insurance cell captives provided by Guardrisk Life Limited and Centriq Life Insurance Company Limited. As Capitec Bank Limited does not have an insurance licence these insurance cell captives are used to provide credit life and funeral insurance products to clients. The profit made in these cells is recognised by the owner of the shares in the cell and the cash flow is effected via the payment of periodic dividends by the cell to its shareholder.

It is considered good governance for the insurance business of a banking group to be held outside of the company within a banking group that holds the banking licence. The South African Reserve Bank requested that the shareholding in the insurance cells be transferred out of Capitec Bank Limited. As such, the shares in the insurance cell captives were sold to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021.

The sale within the group is subject to a number of suspensive conditions that will only be satisfied at the end of April 2021. This includes confirmation of the valuation, being the fair value of policies on book at 31 March 2021. The sale took place after year end so it is a non-adjusting post-balance event only impacting on subsidiaries within the group.

Audit committee's report

Capitec Bank Limited and its subsidiaries (the group)

The Capitec Bank Holdings 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 committee comprises 4 independent non-executive directors. The committee met 3 times during the year with 92% attendance by members at the meetings.

The committee's responsibilities include statutory duties in terms of the Companies Act, as well as responsibilities assigned to it by the 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 of the 2021 integrated annual report.

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter for the year ended 28 February 2021.

The committee performed the following statutory duties during the period under review:

- Satisfied itself that the external auditors are independent of the group or any company in the group, 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
- Satisfied itself that the appointment of the auditors complied with the Companies Act, and any other legislation relating to the appointment of auditors
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2021 financial year
- Approved the nature and extent of non-audit services that the external auditors may provide
- Nominated for election at the annual general meeting, PricewaterhouseCoopers Inc. and Deloitte & Touche as the external audit firms
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditors and internal auditors, that the system of internal financial controls of all the companies included in the consolidated annual financial statements, is effective and forms a basis for the preparation of reliable financial statements
- Reviewed the accounting policies and the consolidated annual financial statements for the year ended 28 February 2021 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 of Corporate Practices and Conduct and IFRS
- Undertook the prescribed functions in terms of section 94(7) of the Companies Act on behalf of the subsidiary companies of the group
- Approved the key audit matters report
- Satisfied itself as to the performance and quality of external audit after due consideration and with reference to the audit quality indicators.

The committee performed the following duties assigned by the board during the period under review:

- Considered the 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 9 April 2021, recommended the integrated annual report for approval by the board of directors

- Satisfied itself that the group's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties
- Approved the internal audit charter and the annual audit plan
- Considered internal audit reports tabled on a quarterly basis and noted the annual conclusion on the adequacy and effectiveness of the system of internal controls, risk management and governance
- Satisfied itself that appropriate financial reporting procedures exist and are working, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, which includes consideration of all the entities in the consolidated annual financial statements
- Met with the external auditors and with the heads of the internal audit function and compliance function without management being present
- Satisfied itself in terms of JSE Listings Requirement 3.84(g)(i) that the group financial director has appropriate expertise and experience.

Jean Pierre Verster
Chairman of the audit committee

13 April 2021

Directors' report

Year ended 28 February 2021

The directors present their report to shareholders for the year ended 28 February 2021.

Nature of the business

Capitec Bank Holdings Limited was incorporated in South Africa on 23 November 1999 and registered as a bank controlling company, as envisaged by the Banks Act on 29 June 2001. Capitec was listed in the Banks sector of the JSE on 18 February 2002.

The company holds 100% of its principal subsidiary, Capitec Bank. Capitec Bank is a leading South African retail and business bank which focuses on essential banking services and provides innovative savings, transacting, lending and insurance products to individuals and businesses.

On 7 November 2019, Capitec Bank Limited obtained control over the Mercantile group 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 business banking. The acquisition provides the group with a share in the business banking market.

On 1 December 2020, the assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited through a business reorganisation.

The shares in the insurance cell captives, previously held by Capitec Bank Limited, were sold to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021. The sale is subject to a number of suspensive conditions that will only be satisfied at the end of April 2021.

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 review by the Chairman and Chief Executive Officer, and the report from the Chief Financial Officer, which are included in the integrated annual report.

Share capital

No ordinary shares were issued during the year ended 28 February 2021. The number of shares in issue amounted to 115 626 991 (2020: 115 626 991).

No ordinary shares were repurchased during the year and 193 402 (2020: 94 288) preference shares were repurchased.

Dividends to shareholders

The following dividends were declared for the year under review and the previous year:

	2021	2020
Ordinary dividend (cents per share)		
Interim	–	755
Final	1 600	–
Preference dividend (cents per share)		
Interim	326.30	428.07
Final	289.26	413.00

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 or an interim dividend for the 2021 financial year. According to the notice, the PA expected there to be no distribution of dividends on ordinary shares by any bank during 2020.

The PA issued a guidance note on 18 February 2021 expressing the expectation that banks be prudent when declaring dividends. After considering the adequacy of forecast capital and profitability levels, the board decided to declare a final dividend for 2021.

The directors have performed the solvency and liquidity tests required by the Companies Act.

Subsidiaries, associates and joint ventures

Information relating to the company's financial interest in its subsidiaries, associates and joint ventures 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 pages 62 to 65 of the 2021 integrated annual report.

The directors' interest in share capital and agreements, and directors' remuneration are disclosed in the notes to the annual financial statements.

Board resignations and appointments

Kabelo Makwane resigned from the board on 25 September 2020.

Stanislaus (Stan) du Plessis, Cora Hedwick Fernandez and Vusumuzi (Vusi) Mahlangu were appointed to the board on 25 September 2020.

Independent auditors' report on the summary consolidated financial statements

To the Shareholders of Capitec Bank Holdings Limited

Opinion

The summary consolidated financial statements of Capitec Bank Holdings Limited, set out on pages 14 to 25 of the Audited Summary Financial Statements for the year ended 28 February 2021, which comprise the summary consolidated statement of financial position as at 28 February 2021, the summary consolidated income statement and the summary consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Capitec Bank Holdings Limited for the year ended 28 February 2021.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

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

Other matter

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

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 13 April 2021. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditors' responsibility

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane, Waterfall City
South Africa

13 April 2021

Deloitte & Touche

Deloitte & Touche
Per Partner: Darren Shipp
Registered Auditor

Johannesburg
5 Magwa Crescent, Waterfall City
South Africa

13 April 2021

Social and ethics committee report

The social and ethics committee (SECO) monitors the group's activities in:

- social and economic development
- good corporate citizenship
- environmental, health and public safety
- impact of its actions and services
- consumer relations
- labour and employment relationships.

The committee functions within the scope of an annually reviewed board-approved charter and meets twice a year.

The members of the SECO are:

- Emma Mashilwane (independent non-executive director and the chairman)
- Danie Meintjes (independent non-executive director)
- Nkosana Mashiya (executive: risk management).

Read more about the committee members' qualifications and experience in their profiles on pages 63 and 64 in the 2021 integrated annual report.

The executive: human resources, operational risk manager, company secretary and head of CSI 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 dealings 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 in 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.

Refer to page 72 in the 2021 integrated annual report where we explain how we support the intent of the UN SDGs.

The committee reviewed the relevant matters 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 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 and confirms that there were no instances of material non-compliance to disclose.

Emma Mashilwane
Chairman of the SECO

13 April 2021

Statutory information

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 group')

Directors

SL Botha (chairman), GM Fourie (chief executive officer)*, AP du Plessis (chief financial officer)*, SA du Plessis(1), CH Fernandez(1), MS du Pré le Roux, V Mahlangu(1), TE Mashilwane, NS Mashiya (executive: risk management)*, K Makwane (resigned 25 September 2020), JD McKenzie, DP Meintjes, PJ Mouton, CA Otto, JP Verster

* *Executive.*
(1) *Appointed 25 September 2020.*

Company secretary and registered office

YM Mouton
5 Neutron Road, Techno Park, Stellenbosch, 7600

Postal address

PO Box 12451, Die Boord, Stellenbosch, 7613

Transfer secretary

Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196

Postal address

Private Bag X9000, Saxonwold, 2132

Sponsor

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

Website

www.capitecbank.co.za

Enquiries

enquiries@capitecbank.co.za