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

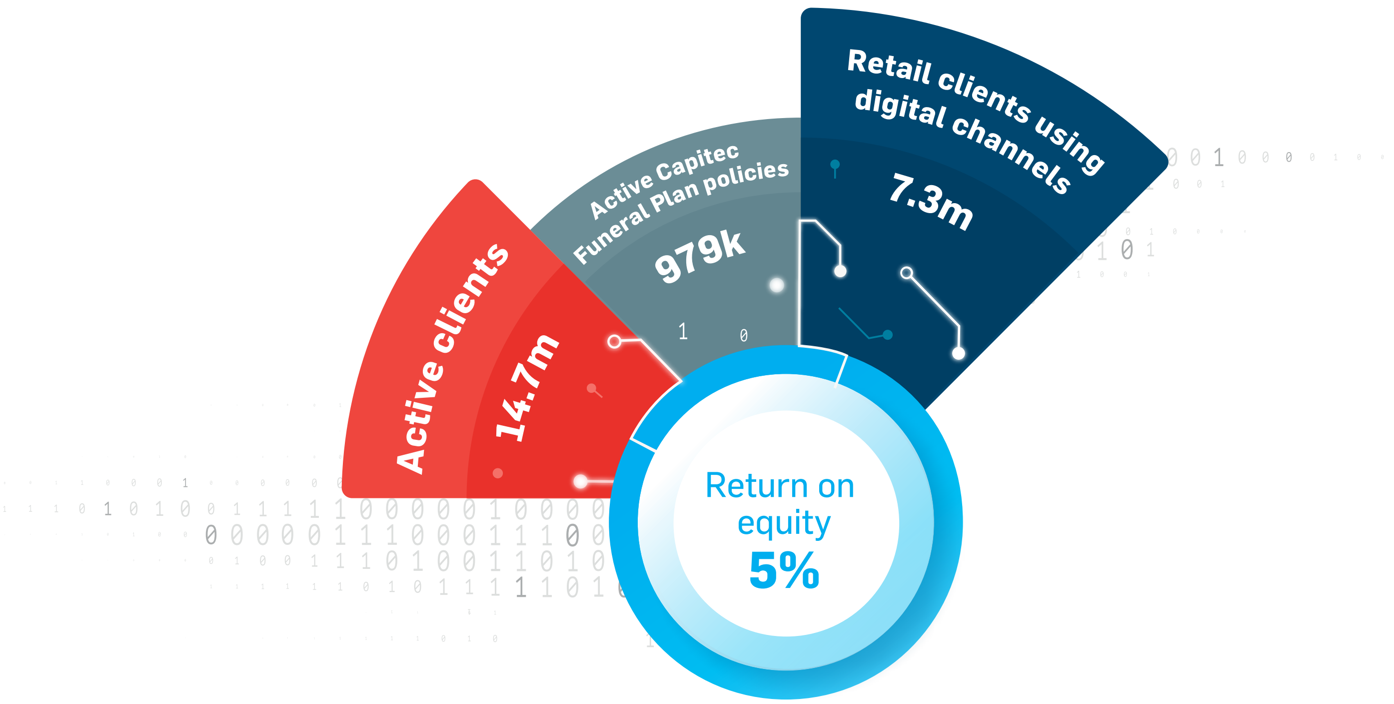
unaudited financial results

for the 6 months ended 31 August 2020

↓78%
to 562 cents
Headline earnings per share

↓78%
to R650 million
Headline earnings

97%
Net transaction fee and funeral plan income to operating expenses



Key performance indicators

Group*		6 months ended August 2020	2019	Change % 2020/2019	Year ended February 2020
Profitability					
Interest income on loans[1]	R'm	**6 712**	6 443	4	13 552
Interest income on investments	R'm	**1 692**	1 681	1	3 489
Total interest income	R'm	**8 404**	8 124	3	17 041
Net loan fee and insurance income	R'm	**966**	859	12	1 871
Total lending, investment and insurance income less loan fee expense	R'm	**9 370**	8 983	4	18 912
Interest expense	R'm	**(2 652)**	(2 677)	(1)	(5 680)
Net lending, investment and insurance income	R'm	**6 718**	6 306	7	13 232
Net transaction fee income	R'm	**3 870**	3 529	10	7 416
Other income	R'm	**7**	11	(27)	32
Foreign currency income	R'm	**47**	–		38
Funeral income	R'm	**350**	107	>100	413
Income from operations	R'm	**10 992**	9 953	10	21 131
Credit impairment charge[1]	R'm	**(6 086)**	(2 115)	>100	(4 474)
Net income	R'm	**4 906**	7 838	(37)	16 657
Income from associates and joint ventures	R'm	**(20)**	(3)	>100	11
Operating expenses	R'm	**(4 348)**	(4 003)	9	(8 612)
Income before tax	R'm	**538**	3 832	(86)	8 056
Tax	R'm	**86**	(879)		(1 805)
Preference dividend	R'm	**(2)**	(4)	(50)	(7)
Discount on repurchase of preference shares	R'm	**(1)**	(1)	–	(1)
Earnings attributable to ordinary shareholders					
Basic	R'm	**621**	2 948	(79)	6 243
Headline	R'm	**650**	2 943	(78)	6 277
Net transaction fee and funeral income to net income	%	**86**	46		47
Net transaction fee and funeral income to operating expenses	%	**97**	91		91
Cost-to-income ratio[1]	%	**40**	40		41
Return on ordinary shareholders equity	%	**5**	28		28
Earnings per share					
Attributable	cents	**537**	2 549	(79)	5 400
Headline	cents	**562**	2 545	(78)	5 428
Diluted attributable	cents	**537**	2 545	(79)	5 391
Diluted headline	cents	**562**	2 540	(78)	5 420
Dividends per share					
Interim	cents	**–**	755		755
Final	cents				–
Total	cents				755
Dividend cover	times				7.2
Assets					
Net loans and advances	R'm	**55 517**	47 403	17	62 043
Financial instruments at amortised cost[2]	R'm	**74 545**	57 125	30	59 439
Financial instruments at fair value through profit and loss	R'm	**2 049**	–		1 504
Financial assets – equity instruments at fair value through other comprehensive income	R'm	**70**	100	(30)	101
Right-of-use asset (IFRS 16)	R'm	**2 225**	2 470	(10)	2 460
Other	R'm	**8 055**	4 885	65	7 153
Current income tax asset	R'm	**8**	–		5
Deferred income tax asset	R'm	**2 051**	1 613	27	1 863
Total assets	R'm	**144 520**	113 596	27	134 568
Liabilities					
Deposits and wholesale funding	R'm	**113 049**	85 324	32	103 343
Lease liability (IFRS 16)	R'm	**2 609**	2 711	(4)	2 795
Other	R'm	**2 750**	2 358	17	2 835
Current income tax liability	R'm	**18**	27	(33)	14
Total liabilities	R'm	**118 426**	90 420	31	108 987
Equity					
Shareholders' funds	R'm	**26 094**	23 176	13	25 581
Capital adequacy ratio	%	**30**	34		31
Net asset value per ordinary share	cents	**22 511**	20 044	12	22 061
Share price	cents	**83 500**	109 490	(24)	129 999
Market capitalisation	R'm	**96 549**	126 600	(24)	150 314
Number of shares in issue	'000	**115 627**	115 627	–	115 627
Share options					
Number outstanding	'000	**496**	549	(10)	491
Number outstanding to shares in issue	%	**0.4**	0.5		0.4
Average strike price	cents	**83 368**	65 218	28	70 889
Average time to maturity	months	**28**	23		21

Group*			6 months ended August 2020	2019	Change % 2020/2019	Year ended February 2020
Operations						
Branches			**863**	834	3	864
Employees			**14 738**	13 923	6	14 590
Active clients		'000	**14 681**	12 575	17	13 887
ATMs and DNRs						
Own			**2 379**	2 199	8	2 388
Partnership			**3 378**	3 110	9	3 264
Total			**5 757**	5 309	8	5 652
Capital expenditure		R'm	**494**	804	(39)	1 403
Credit sales						
Value of credit card disbursements/drawdowns		R'm	**4 701**	4 268	10	9 934
Value of term loans advanced[3]		R'm	**6 303**	13 424	(53)	28 809
Value of credit facility disbursements/drawdowns		R'm	**178**	344	(48)	651
Value of access facility disbursements/drawdowns		R'm	**1 479**	–		–
Value of mortgage loans advanced		R'm	**458**	–		509
Value of other loans advanced		R'm	**134**	–		284
Value of overdraft disbursements/drawdowns		R'm	**20 722**	–		14 571
Credit book						
Gross loans and advances		R'm	**73 853**	60 252	23	75 783
Up-to-date	Stage 1	R'm	**46 288**	45 311	2	57 626
Up-to-date with SICR	Stage 2	R'm	**4 698**	3 284	43	4 570
Total up-to-date		R'm	**50 986**	48 595	5	62 196
Arrears	Stage 2	R'm	**701**	856	(18)	1 200
Arrears	Stage 3	R'm	**2 057**	1 305	58	1 550
Total arrears		R'm	**2 758**	2 161	28	2 750
Application for debt review within 6 months	Stage 3	R'm	**74**	73	1	83
COVID-19 reschedules	Stage 2	R'm	**5 387**	–		–
COVID-19 reschedules	Stage 3	R'm	**485**	–		–
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)	Stage 2	R'm	**216**	–		226
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[4]	Stage 3	R'm	**2 880**	1 009	>100	1 130
Up-to-date that rescheduled from arrears (not yet rehabilitated)	Stage 2	R'm	**86**	–		71
Up-to-date that rescheduled from arrears (not yet rehabilitated)[4]	Stage 3	R'm	**2 359**	1 496	58	1 471
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**11 413**	2 505	>100	2 672
More than 3 months in arrears and legal status	Stage 3	R'm	**8 622**	6 918	25	7 856
Total provision for credit impairments		R'm	**18 336**	12 849	43	13 740
Net loans and advances		R'm	**55 517**	47 403	17	62 043
Total provision for credit impairments to stage 3 and stage 2 (excluding SICR) coverage		%	**80**	110		101
Repayments		R'm	**20 279**	20 199	–	58 834
Gross credit impairment charge[1]		R'm	**6 561**	2 803	>100	5 737
Bad debts recovered		R'm	**475**	688	(31)	1 263
Net credit impairment charge[1]		R'm	**6 086**	2 115	>100	4 474
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1]		%	**8.1**	3.6		6.3
Total lending and insurance income (excluding investment income)[5]		R'm	**7 706**	7 432	4	15 517
Net credit impairment charge to total lending and insurance income (excluding investment income)[1]		%	**79.0**	28.5		28.8
Deposits and wholesale funding						
Wholesale funding		R'm	**2 683**	3 949	(32)	3 694
Call savings		R'm	**70 094**	50 896	38	62 582
Fixed savings		R'm	**39 326**	30 479	29	36 183
Foreign currency deposits		R'm	**946**	–		884

* *In 2019 the group comprised only retail banking*

(1) *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and bad debt written off by R930 million for this period (August 2019: R764 million)*

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

(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 fee and net insurance income*

Meeting the challenges of COVID-19

Capitec met the challenges of the COVID-19 pandemic with the agility born from our fundamental principles. Our founding principles of simplified, accessible banking that puts the client first allowed us to adapt quickly to the ever-changing circumstances that have affected the lives and livelihoods of South Africans during the COVID-19 national lockdown. During this time, we have been able to provide relief to clients, ensure the job security of our employees and implement strategies that safeguard the future of Capitec.

Clients were granted payment relief and certain transaction fees were lowered. Employees received their full salaries and there were no retrenchments. Branch capacity was at 50% from the beginning of the national lockdown and gradually increased as lockdown restrictions eased. Currently all branches are open. Call centres operated remotely and non-client-facing employees worked from home.

Capitec will remain resilient and agile in the upcoming period and will adapt to the changes in the economic and health environment as they transpire. We have provided in full for the anticipated impact of the lockdown on the credit book.

Headline earnings

Headline earnings for the 6-month period ended August 2020 was R650 million, a decrease of 78% from R2.9 billion for the period ended August 2019. Retail banking generated headline earnings of R701 million and business banking a loss of R47 million. Impairment of intangible assets created on the acquisition of Mercantile Bank amounted to R4 million.

The results were driven by the impact of the lockdown on all areas of the business. Credit impairment charges increased and loan sales and transaction volumes were lower than budgeted, due to COVID-19. However, active clients for the group grew by 0.8 million from 13.9 million at the end of February 2020 to 14.7 million at the end of August 2020. As a result, income from operations (before net credit impairments) increased by 10% compared to the six months ended August 2019 and amounted to R11.0 billion (August 2019: R10.0 billion).

Net transaction fee and funeral income comprised 97% of operating expenses (August 2019: 91%) and 86% of net income (August 2019: 46%).

Retail banking

Clients

Despite the impact of COVID-19, the number of active retail banking clients grew by 6% to 14.6 million compared to 13.8 million at the end of February 2020. Client numbers grew by 2.0 million compared to August 2019. Banking clients' income was negatively impacted by the lockdown and decreased by 25% in April 2020 compared to March 2020. By August income had returned to March 2020 levels.

Transacting

Net transaction fee income increased by 3% from R3.5 billion for the 6 months ended August 2019 to R3.6 billion for the 6 months ended August 2020. The lower-than-expected increase is due to the impact of the lockdown on both transaction volumes and fees, mitigated by the increase in the number of active clients.

Capitec provided relief to clients with respect to transaction fees in a number of ways. The minimum merchant account fee and monthly card machine rental were waived for Capitec merchants who could not trade during the lockdown. Capitec participated in industry initiatives for clients who needed cash and offered no cash withdrawal fees for SASSA grant recipients and the same withdrawal fee at any other bank's ATM as at a Capitec ATM.

Our clients are also able to stay safe and bank from home using our banking app, and benefit from lower transaction fees and zero data charges. At the end of August 2020 there were 4 million app users (2019: 2.9 million) and 5.2 million USSD users (2019: 4.7 million). Certain clients use both the app and the USSD channels. On average 7.3 million clients used either the app, USSD or both per month for the period March 2020 to August 2020. Digital transactions increased by 52% for the 6 months ended August 2020.

Point-of-sale transactions decreased to 419 million transactions (2019: 445 million), a decrease of 6%, despite a 46% decrease in volumes in April 2020 due to the lockdown. Transaction volumes for March were minimally affected by the lockdown, which came into effect on 26 March 2020, and decreased by 2.7% compared to February 2020. As lockdown level 5 progressed, its impact on transaction volumes became more severe with volumes being down by 28% in April compared to March 2020. In May 2020 volumes began to show a recovery and by August 2020 they were 8% above March 2020 volumes.

Capitec Funeral Plan

Funeral plan income increased by more than 100% to R350 million (August 2019: R107 million). Despite the number of policies issued being below pre-lockdown expectations, there was an increase in average premiums and collection rates were good. Pre-lockdown the number of policies issued per month was 100 000 on average; during lockdown this decreased to less than 74 000 policies per month on average. In August, under level 2 of the lockdown, the number of policies issued returned to pre-lockdown levels.

Our app functionality for buying and maintaining a Capitec funeral plan reduced the impact of the lockdown on the issuing of policies. During the 6 months ended August 2020, 21.5% of policies were issued via the app compared to 15.4% in the year ended February 2020. By August 2020 the percentage of policies issued via the app had returned to pre-lockdown levels.

During the last 6 months, in excess of 440 000 funeral policies were issued, bringing the total number of policies issued since inception to 2.1 million. Persistency is at 42% compared to 48% at the end of February 2020, reflecting the impact of the lockdown. Persistency is calculated using the number of policies that remain on the active book 3 months after commencement date.

Collection rates remained good due to the efficiency of the collection system. Collection rates increased to above 80% in May 2020 and have remained above that level since.

Saving

Saving continues to be encouraged by paying clients interest on their savings from day 1. During this 6-month period we paid out R2.2 billion in interest on retail call deposits, fixed deposits and positive credit card accounts (August 2019: R2.3 billion). A decrease of 2.75% in the repo rate since the beginning of March 2020 necessitated a decrease in the interest rates paid on client savings. Currently clients earn between 2.25% and 2.5% on call savings and up to 7.5% on fixed savings.

During level 5 lockdown, client spending was curbed and retail deposits reached R99.8 billion at the end of April 2020. At the end of August 2020 deposits totalled R97.6 billion, an 11% increase compared to February 2020 (February 2020: R87.5 billion; August 2019: R81.4 billion).

Credit

Loan sales and credit card disbursements

In the weeks preceding lockdown Capitec reassessed loan-granting criteria in light of the COVID-19 pandemic; and granting rules were already more stringent going into lockdown. Criteria were adjusted based on the expected impact of the lockdown on industry, employer and client income groups. As a result, loan sales for the 6-month period were down 35% compared to the prior-year period and 56% compared to the 6 months ended February 2020. Credit card disbursements decreased by 20% compared to the six months ended February but were 6% higher than the corresponding prior period. Term loans were negatively impacted by the lockdown and the launch of the access facility. Advances decreased by 64% compared to the 6 months ended February 2020 and by 59% compared to the 6 months ended August 2019.

The access facility was launched during May 2020 and provides clients with an alternative to traditional term loans. Some clients who were previously restricted to a term loan now qualify for a facility. The 1–6 month term loan products at higher interest rates have been superseded by a facility at lower interest rates. The facility offers clients revolving credit of up to R250 000 with interest rates linked to prime and a repayment period of up to 60 months. This product reflects our core fundamentals as it is affordable: clients only pay for it when used, and there is no initiation fee, interest or monthly service fee charged if the facility is not used. It is personalised: as clients can make additional repayments and choose to lower the repayment amount or period. Disbursements of the product amounted to R1.5 billion, 13% of total sales.

As the lockdown was relaxed and economic activity gradually increased, credit-granting criteria were eased based on the impact of lockdown on individual sectors of the economy.

Net credit impairment charge

While loan criteria were tightened, relief was also granted to clients affected by the lockdown. This relief took the form of payment breaks and variable payment reschedules. In total, COVID-19 reschedules amounted to R7.5 billion in balances. Payment breaks were granted on balances amounting to R5.5 billion and reschedules with variable payments were extended on R2.0 billion in balances. Most of these reschedules took place between March and July 2020.

The clients who qualified for COVID-19 reschedules were in good standing at the end of February 2020 and were considered to carry less risk than clients who reschedule in the normal course of business. However, higher provisions are carried on these rescheduled balances than on up-to-date loans in stage 1 and loans in stage 2 that show significant increase in credit risk (SICR).

The additional provision on these reschedules is the primary driver of the gross impairment charge for the 6 months, as reflected in the table below. At the end of August 2020 the total provision held on COVID-19 reschedules in stage 2 and stage 3 was R1.8 billion.

COVID-19 and the lockdown also impacted Capitec's forward-looking view on the economy. Our view was informed by an assessment of the impact of the lockdown on the different sectors of the economy. The gross credit impairment for the 6 months includes a charge of R1.1 billion based on our forward-looking view.

Taking into consideration its impact on the remainder of the loan book, the lockdown contributed R4.2 billion to the total gross impairment charge of R6.3 billion for the 6 months ended August 2020.

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

		6 months ended		
		August 2020	**February 2020**	**August 2019**
Bad debts written off	R'm	**2 884**	3 007	2 099
Movement in provision for credit impairment	R'm	**3 412**	(187)	704
Gross credit impairment charge[(1)]	R'm	**6 296**	2 820	2 803
Bad debts recovered	R'm	**(475)**	(575)	(688)
Net credit impairment charge	R'm	**5 821**	2 245	2 115

(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 the credit impairment charge by R930 million for the period (August 2019: R764 million)*

Loan book

The gross loan book decreased from R65.4 billion at the end of February 2020 to R63.4 billion at the end of August 2020 as the repayments exceeded loan sales and disbursements.

	Stage 1	**Stage 2**		**Stage 2 and 3**	**Stage 3**				
R'm	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Up to 1 month in arrears	Up-to-date COVID-19 reschedules	2 and 3 months in arrears	Up-to-date rescheduled from up-to-date (not yet rehabilitated)	Up-to-date rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance at 31 August 2020									
Gross loans and advances	**37 257**	**4 586**	**686**	**5 466**	**2 057**	**2 880**	**2 359**	**8 106**	**63 397**
Provision for credit impairments (ECL)	**(3 303)**	**(1 103)**	**(382)**	**(1 762)**	**(1 603)**	**(1 192)**	**(1 214)**	**(7 207)**	**(17 766)**
Net loans and advances	**33 954**	**3 483**	**304**	**3 704**	**454**	**1 688**	**1 145**	**899**	**45 631**
ECL coverage (%)	**8.9**	**24.1**	**55.7**	**32.2**	**77.9**	**41.4**	**51.5**	**88.9**	**28.0**
% of total gross loans and advances	**58.8**	**7.2**	**1.1**	**8.6**	**3.2**	**4.6**	**3.7**	**12.8**	**100.0**

	Stage 1	Stage 2		Stage 2 and 3	Stage 3				
R'm	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Up to 1 month in arrears	Up-to-date COVID-19 reschedules	2 and 3 months in arrears	Up-to-date rescheduled from up-to-date (not yet rehabilitated)	Up-to-date rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance at 29 February 2020									
Gross loans and advances	48 311	4 446	1 172	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(1 061)	(651)	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	3 385	521	–	420	675	904	1 101	52 013
ECL coverage (%)	6.8	23.9	55.5		72.9	40.3	38.5	85.0	20.5
% of total gross loans and advances	73.8	6.8	1.8		2.4	1.7	2.3	11.2	100.0
Balance at 31 August 2019									
Gross loans and advances	45 311	3 284	856	–	1 305	1 009	1 496	6 991	60 252
Provision for credit impairments (ECL)	(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
ECL coverage (%)	6.4	25.7	57.7		82.5	43.8	41.9	92.3	21.3
% of total gross loans and advances	75.2	5.4	1.4		2.2	1.7	2.5	11.6	100.0

Balances in arrears by between 1 and 3 months remained stable at R2.7 billion compared to February 2020 (August 2019: R2.2 billion). Balances in arrears for more than 3 months (including debt review and handed-over loans) amounted to R8.1 billion compared to R7.4 billion at the end of February 2020 (August 2019: R7.0 billion). The coverage ratio on these loans increased to 88.9% from 85.0% at the end of February 2020 (August 2019: 92.3%). The provision percentage is higher than February 2020 due to the forward-looking economic provision adjustment.

COVID-19 reschedules amounted to R5.5 billion at the end of August 2020 and were provided at an average provision percentage of 32.2%. First payments on the COVID-19 payment break reschedules began to take place during July and August 2020. Payment success rates on payment break reschedules exceeded 80%. Payments on variable reschedules began in April 2020 and success rates on these reschedules were in excess of 90%.

During August 2020, credit clients received on average the same salaries as in March 2020. This contributed to the stability of arrears balances and limited the increase in loans more than 3 months in arrears.

Credit life insurance

Capitec generates insurance income on the credit life policies issued to loan clients. In terms of these policies clients are insured against the risk of retrenchment, death, permanent or temporary disability and the inability to earn an income.

The COVID-19 pandemic led to an increase in the risk of death and retrenchment in South Africa. As a result, the group was not able to satisfactorily negotiate renewals before the expiry of the reinsurance agreements that were in place to the end of April 2020. This means that Capitec is responsible for death and retrenchment claims with a death or retrenchment date subsequent to 30 April 2020. All valid claims with a death or retrenchment date before 1 May 2020 will be settled by the reinsurer. The group, however, reinsured the entire loan book for death events from 1 August 2020.

Total claims paid by the reinsurers relating to retrenchments up to 30 April 2020 amounted to R187 million for the 6 months ended August 2020. For March and April 2020 Capitec paid R98 million in reinsurance premiums. From 1 May 2020 Capitec no longer paid reinsurance premiums but became liable to pay claims. Claims paid by Capitec relating to retrenchments amounted to R194 million for the 4 months ended August 2020. There was an increase in total claim amounts paid for retrenchments in June 2020 subsequent to which the number of claims plateaued.

During the period that was reinsured, the claims provision in respect of retrenchment risk was held by the reinsurer. As Capitec is no longer reinsured, it holds an incurred but not yet reported (IBNR) claims provision (provisioning for future estimated claims) as at the end of August 2020. This reflects in the IBNR charge through net insurance income for the 6 months, which totalled R226 million in respect of retrenchment risk.

In response to the increased retrenchment risk created by the lockdown, credit life insurance premiums (which also cover retrenchment) were increased effective May 2020 for new loan sales and effective July 2020 for the remainder of the loan book.

Refer to note 2 of the summarised financial statements where the net insurance income is detailed.

Cost-to-income ratio

Retail banking operating expenditure is down 2% compared to the 6 months ended August 2019 due to a focus on cost containment. The retail banking cost-to-income ratio is 38% compared to 40% at the end of August 2019. The more severe levels of lockdown led to a decrease in the demand for cash and as a result the cost of cash handling decreased for the 6-month period. The decrease in cost is not expected to recur during the second half of the financial year as demand for cash had returned to pre-lockdown levels by August 2020. Although salary increases were granted, the growth in employment costs was curtailed through lower accruals for incentives. Data costs and equipment rental costs increased due to employees working from home.

Costs were further contained by delaying the opening of new branches during the lockdown.

Business banking

Since the acquisition of Mercantile Bank in November 2019, Capitec has offered a business banking solution to established small to medium-sized enterprises and entrepreneurs. Mercantile provides Capitec with the opportunity to deliver a digitally led banking solution to these clients, based on the same fundamentals as our retail banking solution.

Currently retail and business banking run independently as we refine our business banking strategy and build the business banking division.

For the 6 months ended August 2020, business banking contributed R314 million in net lending and investment income. Net transaction income amounted to R230 million and foreign currency income was R47 million.

Business banking clients were affected by the lockdown and Mercantile Bank assisted with credit restructuring to aid their cash flow and sustainability. As at the end of August 2020, COVID-19 rescheduled balances totalled R406.1 million. This represents 3.9% of the credit book. Provisions for expected credit losses on these restructured balances at 11.3% contributed to the total net credit impairment charge of R265.0 million for the 6 months ended August 2020. The same conservative credit loss provisioning philosophy is applied by the business and retail banking divisions.

As at the end of August 2020, the gross loan book amounted to R10.5 billion with a provision coverage ratio of 5.5% compared to 3.0% at the end of February 2020.

As at 31 August 2020, R500 million of the total R1 billion facility approved by the South African Reserve Bank in respect of the COVID-19 guarantee scheme had been advanced to clients.

Deposits as at August 2020 totalled R12.8 billion and comprised R8.1 billion in call savings, R3.7 billion in fixed savings and R946 million in foreign currency deposits. Total deposits increased by 5% compared to February 2020.

Capital and liquidity

We remain well capitalised with a capital adequacy ratio (CAR) of 30.4% for the group compared to 30.5% at the end of February 2020 (August 2019: 34%).

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 1 850% and the NSFR is 219%. The regulatory required minimum NSFR is 100% and the required LCR is 80%.

In order to maintain our capital position and comply with the South African Reserve Bank's guidance note, no final ordinary dividend was declared for the 2020 financial year and no interim ordinary dividend was declared for the period ended August 2020.

Credit ratings

S&P Global Ratings lowered the sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook on 7 May 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+.

Prospects

Economic conditions are expected to improve in the short term but the full impact of the lockdown will only be seen in the medium term. Higher income earners are expected to recover more rapidly than lower income earners and we therefore anticipate that the credit market will continue to be affected by the lockdown in the medium term.

Economic conditions are monitored by sector and the information is used to continuously amend credit-granting criteria and payment relief. Our focus is on decreasing the cost of credit for our clients, improving their experience and motivating them toward positive credit behaviour.

The payment performance of the COVID-19 rescheduled loans is encouraging but payment success rates going forward will reveal the medium- to long-term impact of the lockdown on our clients. We expect that this impact will be softened by the clients employed in essential services, that comprise 60% of our performing loan book. Credit loss provisioning will remain conservative and we have provided in full for our expectation of future developments.

As the lockdown restrictions were relaxed, transaction volumes and revenue started returning to pre-lockdown levels. We anticipate continued growth in quality banking clients, which will support transaction volumes and revenue.

Digital innovation in all areas of the business is a priority, as is building the business bank of the future. We will continue to meet the evolving needs of our clients by launching new products. Some employees will continue to work from home and will gradually and responsibly return to the workplace. Our fundamental principles will remain the basis of our strategies.

Close co-operation between the government and the private sector will be required to grow the South African economy.

Changes in board composition

On 28 September 2020, Kabelo Makwane resigned from the board. We thank Kabelo for his contribution to the business. Cora Fernandez, Stan du Plessis and Vusi Mahlangu were appointed to the board effective 28 September 2020.

Dividend

The South African Reserve Bank published Guidance Note 4/2020 on 6 April 2020 in which banks were directed to act prudently in preserving capital and focusing on financial and economic stability. This was due to the absence of appropriate factual information to determine the full impact of the COVID-19 pandemic on the South African economy. There was a clear expectation communicated in the Guidance Note that banks should not declare ordinary dividends during 2020. The board considered the guidance of the Reserve Bank and decided against the declaration of an interim ordinary dividend.

PSG unbundling of Capitec shareholding

The PSG Group announced its decision to unbundle a 28.1% shareholding in Capitec during the current year. The unbundling resulted in PSG retaining a 2.8% stake in Capitec through its subsidiary PSG Financial Services. We would like to thank the PSG Group for its support since the inception of Capitec.

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
30 September 2020

Summary consolidated statement of financial position

As at 31 August 2020

	Unaudited August 2020 R'm	Unaudited August 2019 R'm	6 months August 2020/2019 %	Audited February 2020 R'm
Assets				
Cash, cash equivalents and money market funds	**51 860**	37 150	40	42 232
Financial assets at FVTPL	**2 049**	–	–	1 504
Financial investments	**21 735**	14 464	50	17 207
Term deposit investments	**950**	5 511	(83)	–
Net loans and advances	**55 517**	47 403	17	62 043
Other receivables	**2 257**	1 371	65	2 047
Net insurance receivable	**796**	185	>100	217
Derivative assets	**21**	5	>100	37
Financial assets – equity instruments at FVOCI	**70**	100	(30)	101
Current income tax asset	**8**	–	–	5
Interest in associates and joint ventures	**464**	328	41	461
Property and equipment	**3 028**	2 557	18	3 017
Right-of-use asset	**2 225**	2 470	(10)	2 460
Intangible assets including goodwill	**1 489**	439	>100	1 374
Deferred income tax asset	**2 051**	1 613	27	1 863
Total assets	**144 520**	113 596	27	134 568
Liabilities				
Derivative liabilities	**83**	34	>100	61
Current income tax liability	**18**	27	(33)	14
Deposits	**110 366**	81 375	36	99 649
Wholesale funding	**2 683**	3 949	(32)	3 694
Other liabilities	**2 475**	2 246	10	2 530
Lease liability	**2 609**	2 711	(4)	2 795
Provisions	**119**	78	53	171
Deferred income tax liability	**73**	–	–	73
Total liabilities	**118 426**	90 420	31	108 987
Equity				
Capital and reserves				
Ordinary share capital and premium	**5 649**	5 649	–	5 649
Cash flow hedge reserve	**(48)**	(25)	92	(21)
Other reserves	**(5)**	–	–	(5)
Foreign currency translation reserve	**82**	20	>100	30
Retained earnings	**20 351**	17 457	17	19 855
Share capital and reserves attributable to ordinary shareholders	**26 029**	23 101	13	25 508
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**65**	75	(13)	73
Total equity	**26 094**	23 176	13	25 581
Total equity and liabilities	**144 520**	113 596	27	134 568

Summary consolidated income statement

6 months ended 31 August 2020

	Unaudited August 2020 R'm	Unaudited August 2019 R'm	6 months August 2020/2019 %	Audited February 2020 R'm
Lending, investment and insurance income	**9 398**	9 038	4	19 002
Interest income	**8 404**	8 124	3	17 041
Loan fee income	**496**	474	5	980
Net insurance income	**498**	440	13	981
Lending and investment expenses	**(2 680)**	(2 732)	(2)	(5 770)
Interest expense	**(2 652)**	(2 677)	(1)	(5 680)
Loan fee expense	**(28)**	(55)	(49)	(90)
Net lending, investment and insurance income	**6 718**	6 306	7	13 232
Transaction fee income	**5 366**	4 819	11	10 263
Transaction fee expense	**(1 496)**	(1 290)	16	(2 847)
Net transaction income	**3 870**	3 529	10	7 416
Credit impairments	**(6 086)**	(2 115)	>100	(4 474)
Foreign currency income	**47**	–	–	38
Funeral income	**350**	107	>100	413
Other income	**7**	11	(36)	32
Net income	**4 906**	7 838	(37)	16 657
Operating expenses	**(4 348)**	(4 003)	9	(8 612)
Share of net profit of associates and joint ventures	**(20)**	(3)	>100	11
Operating profit before tax	**538**	3 832	(86)	8 056
Income tax expense	**86**	(879)	>100	(1 805)
Profit for the period	**624**	2 953	(79)	6 251
Earnings per share (cents)				
• Basic	**537**	2 549		5 400
• Diluted	**537**	2 545		5 391

Summary consolidated statement of other comprehensive income

6 months ended 31 August 2020

	Unaudited August 2020 R'm	Unaudited August 2019 R'm	6 months August 2020/2019 %	Audited February 2020 R'm
Profit for the period	**624**	2 953	(79)	6 251
Other comprehensive income that may subsequently be reclassified to profit or loss	**25**	–		14
Cash flow hedge reserve recognised during the period	**(59)**	(26)	>100	(32)
Cash flow hedge reclassified to profit or loss for the period	**21**	6	>100	16
Income tax relating to cash flow hedge	**11**	5	>100	5
Foreign currency translation reserve recognised during the period	**52**	15	>100	25
Other comprehensive income that will not subsequently be reclassified to profit or loss	**–**	–		(5)
Remeasurement of defined benefit obligation	**–**	–		1
Loss on remeasurement to fair value of financial assets	**–**	–		(7)
Income tax thereon	**–**	–		1
Total comprehensive income for the period	**649**	2 953		6 260

Reconciliation of attributable earnings to headline earnings

6 months ended 31 August 2020

	Unaudited August 2020 R'm	Unaudited August 2019 R'm	6 months August 2020/2019 %	Audited February 2020 R'm
Net profit attributable to ordinary shareholders	**624**	2 953	–	6 251
Preference dividend	**(2)**	(4)	–	(7)
Discount on repurchase of preference shares	**(1)**	(1)	–	(1)
Net profit after tax attributable to ordinary shareholders	**621**	2 948	–	6 243
Non-headline items:				
Loss on disposal of property and equipment	**–**	(7)	–	46
Income tax charge – property and equipment	**–**	2	–	(13)
Impairment of investment in associate	**29**	–		–
Derecognition of intangible assets	**–**	–	–	1
Headline earnings	**650**	2 943	–	6 277
Headline earnings per share (cents)				
• Basic	**562**	2 545	–	5 428
• Diluted	**562**	2 540	–	5 420

Summary consolidated statement of cash flows

6 months ended 31 August 2020

	Unaudited August 2020 R'm	Unaudited August 2019 R'm	6 months August 2020/2019 %	Audited February 2020 R'm
Cash flow from operating activities				
Cash flow from operations	**17 913**	11 818	52	18 176
Income taxes paid	**(74)**	(552)	(87)	(1 772)
	17 839	11 266	58	16 404
Cash flow from investing activities				
Acquisition of property and equipment	**(311)**	(596)	(48)	(1 140)
Disposal of property and equipment	**2**	9	(78)	14
Acquisition of intangible assets	**(183)**	(207)	(12)	(263)
Investment in term deposit investments	**(943)**	–		–
Redemption of term deposit investments	**–**	3 735	(100)	9 056
Acquisition of financial investments	**(14 560)**	(8 822)	65	(16 494)
Redemption of financial investments	**9 866**	5 218	89	11 173
Acquisition of financial assets at FVTPL	**(541)**	–		(1 500)
Redemption of financial assets at FVTPL	**57**	–		5
Decrease/(increase) in short-term money market investments	**1**	(8)	>100	10
Interest acquired in associates and joint ventures	**–**	–	–	(107)
Acquisition of subsidiary net of cash acquired	**(55)**	–		1 037
	(6 667)	(671)	>100	1 791
Cash flow from financing activities				
Dividends paid	**(7)**	(1 298)	(99)	(2 175)
Preference shares repurchased	**(9)**	(8)	13	(9)
Issue of institutional bonds and other funding	**–**	500	(100)	500
Redemption of institutional bonds and other funding	**(1 307)**	(1 500)	(13)	(2 962)
Payment of lease liabilities	**(96)**	(105)	(9)	(246)
Shares acquired for settlement of employee share options	**(175)**	(242)	(28)	(294)
Participants' contribution on settlement of options	**49**	56	(13)	79
	(1 545)	(2 597)	(41)	(5 107)
Effect of exchange rate changes on cash and cash equivalents	**2**	–		8
Net increase in cash and cash equivalents	**9 629**	7 998	20	13 096
Cash and cash equivalents at the beginning of the period	**42 209**	29 113	45	29 113
Cash and cash equivalents at the end of the period	**51 838**	37 111	40	42 209

Summary consolidated statement of changes in equity

6 months ended 31 August 2020

R'm	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Total
Balance at 28 February 2019	5 649	82	5	(10)	–	15 950	21 676
Total comprehensive income for the year	–	–	25	(11)	(5)	6 251	6 260
Transactions with shareholders and directly recorded in equity	–	(9)	–	–	–	(2 346)	(2 355)
Ordinary dividend	–	–	–	–	–	(2 168)	(2 168)
Preference dividend	–	–	–	–	–	(7)	(7)
Employee share option scheme: value of employee services	–	–	–	–	–	28	28
Shares acquired for employee share options at cost	–	–	–	–	–	(294)	(294)
Proceeds on settlement of employee share options	–	–	–	–	–	79	79
Tax effect on share options	–	–	–	–	–	16	16
Preference shares repurchased	–	(9)	–	–	–	–	(9)
Balance at 29 February 2020	**5 649**	**73**	**30**	**(21)**	**(5)**	**19 855**	**25 581**
Total comprehensive income for the period	**–**	**–**	**52**	**(27)**	**–**	**624**	**649**
Transactions with shareholders and directly recorded in equity	**–**	**(8)**	**–**	**–**	**–**	**(128)**	**(136)**
Ordinary dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Preference dividend	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Employee share option scheme: value of employee services	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Shares acquired for employee share options at cost	**–**	**–**	**–**	**–**	**–**	**(175)**	**(175)**
Proceeds on settlement of employee share options	**–**	**–**	**–**	**–**	**–**	**48**	**48**
Tax effect on share options	**–**	**–**	**–**	**–**	**–**	**16**	**16**
Preference shares repurchased	**–**	**(8)**	**–**	**–**	**–**	**(1)**	**(9)**
Balance at 31 August 2020	**5 649**	**65**	**82**	**(48)**	**(5)**	**20 351**	**26 094**

Notes to the unaudited financial results

6 months ended 31 August 2020

1. Basis of preparation

The summary consolidated interim 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 these interim financial statements are in terms of IFRS as issued by the International Accounting Standards Board (IASB).

The accounting policies applied are consistent with the previous consolidated annual financial statements.

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

Significant judgements and estimates

Expected credit losses (ECL) on loans and advances
In calculating the ECL for the 6 months ended 31 August 2020 key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historic data is used to project ECL. Information available up to 31 August 2020 was considered in determining the negative economic scenarios applied to estimate the impact of COVID-19.

2. Credit life insurance

The group participates in a third-party cell captive arrangement that entitles the group to participate in the insurance profits generated in terms of credit life insurance policies sold to the group's loan clients.

The cell captive arrangement exposes the group to insurance risk which has always been reinsured for death and retrenchment. Reinsurance agreements were in place for a period of 12 months and expired annually on 30 April.

Due to the COVID-19 pandemic it was not possible to enter into favourable reinsurance agreements prior to the expiration of the previous agreements on 30 April 2020. As such, the group self-insured the entire loan book for death and retrenchment events subsequent to 30 April 2020. On 1 August 2020, the group entered into a reinsurance agreement to cover the entire loan book for death risk.

The self-insurance of risk had no material effect on the general and risk management of the group's insurance business. The processes remained consistent with those applied prior to 30 April 2020.

2.1 Net insurance receivable

	August 2020 R'm	August 2019 R'm	February 2020 R'm
Opening balance	**217**	236	236
Underwriting profit after tax[(2)(6)]	**479**	460	1 016
Interest received[(5)]	**–**	12	22
Additional investment[(3)]	**100**	–	–
Distribution paid to the group[(4)(6)]	**–**	(523)	(1 057)
Net insurance receivable[(1)]	**796**	185	217

[(1)] *The amount receivable from the insurer represents the right to a residual interest in the cell captive reduced by the distributions declared by the cell captive insurer*
[(2)] *Please refer to note 2.2 below where a breakdown of the underwriting profit after tax is provided*
[(3)] *The group subscribed for an additional ordinary share, at a subscription price of R100 million, on 30 June 2020*
[(4)] *No distribution was declared in May 2020 in order to ensure that the cell captive meets the required solvency levels as defined by the Solvency Asset Management (SAM) regulations*
[(5)] *As of August 2020, interest received is included in the underwritting profit after tax*
[(6)] *Subsequent to February 2020, a reallocation was made between insurance income and distributions paid to the group so that underwriting profit after tax is reflected. Refer to note 2.2*

2.2 Net insurance income

	August 2020 R'm	August 2019 R'm	February 2020 R'm
Premium income received	**1 373**	1 153	2 414
Reinsurance premium paid[(1)]	**(225)**	(503)	(918)
Net premium written	**1 148**	**650**	**1 496**
Claims paid – Gross	**(503)**	(397)	(779)
Claims paid – Reinsurance recoveries[(1)]	**253**	389	751
Incurred but not yet reported charge[(2)]	**(239)**	(5)	(46)
Interest received	**14**	–	–
Underwriting profit	**673**	**637**	**1 422**
Taxation	**(194)**	(177)	(406)
Underwriting profit after tax	**479**	460	1 016
Cash to accrual basis adjustment[(3)]	**30**	3	4
Underwriting profit write-back[(4)]	**(11)**	(23)	(39)
Net insurance income	**498**	440	981

[(1)] *Reinsurance premiums paid and recoveries received relate to the period for which the loan book was covered for death and retrenchment risk by a reinsurance agreement*

- *Death risk cover: 1 March 2020 – 30 April 2020, from 1 August 2020*
- *Retrenchment risk cover: 1 March 2020 – 30 April 2020*

[(2)] *An IBNR provision is raised for claims incurred but not yet reported based on historical experience. The cell captive determines the IBNR by applying a percentage to premiums written during the period, in line with SAM regulations. Due to the uncertainty created by COVID-19, a conservative approach was followed in determining the IBNR for retrenchment risk*
[(3)] *The cell captive prepares statutory accounts on a cash basis. This adjustment is processed by the group to align the group statutory accounts to IFRS*
[(4)] *Write-back of underwriting profit on handed-over loan accounts*

3. Net loans and advances

Retail banking

R'm	Stage 1 Up-to-date	Stage 2 Up-to-date loans with SICR and applied for debt review >6 months	Stage 2 COVID-19 reschedules	Stage 2 Up to 1 month in arrears	Stage 3 COVID-19 reschedules	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 at 31 August 2020										
Gross loans and advances	**37 257**	**4 586**	**4 997**	**686**	**469**	**2 057**	**2 880**	**2 359**	**8 106**	**63 397**
Provision for credit impairments (ECL)	**(3 303)**	**(1 103)**	**(1 626)**	**(382)**	**(136)**	**(1 603)**	**(1 192)**	**(1 214)**	**(7 207)**	**(17 766)**
Net loans and advances	**33 954**	**3 483**	**3 371**	**304**	**333**	**454**	**1 688**	**1 145**	**899**	**45 631**
ECL coverage (%)	**8.9**	**24.1**	**32.5**	**55.7**	**29.0**	**77.9**	**41.4**	**51.5**	**88.9**	**28.0**
Balance at 29 February 2020										
Gross loans and advances	48 311	4 446	–	1 172	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(1 061)	–	(651)	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	3 385	–	521	–	420	675	904	1 101	52 013
ECL coverage (%)	6.8	23.9		55.5		72.9	40.3	38.5	85.0	20.5
Balance at 31 August 2019										
Gross loans and advances	45 311	3 284	–	856	–	1 305	1 009	1 496	6 991	60 252
Provision for credit impairments (ECL)	(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
ECL coverage (%)	6.4	25.7		57.7		82.5	43.8	41.9	92.3	21.3

Business banking	Stage 1		Stage 2					Stage 3		
R'm	Up-to-date	Up to 1 month in arrears	Up-to-date loans SICR	2 and 3 months in arrears	COVID-19 reschedules	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
Balance at 31 August 2020										
Gross loans and advances	**8 623**	**408**	**112**	**15**	**390**	**216**	**86**	**16**	**590**	**10 456**
Provision for credit impairments (ECL)	**(187)**	**(5)**	**(30)**	**(2)**	**(39)**	**(30)**	**(30)**	**(3)**	**(244)**	**(570)**
Net loans and advances	**8 436**	**403**	**82**	**13**	**351**	**186**	**56**	**13**	**346**	**9 886**
ECL coverage (%)[1]	**2.2**	**1.2**	**26.9**	**16.7**	**9.9**	**14.0**	**33.9**	**18.9**	**41.3**	**5.5**
Balance 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 % is calculated before rounding, as derived from the unaudited consolidated financial statements*

4. Commitments and contingent liabilities

	Unaudited August 2020 R'm	**Unaudited August 2019 R'm**	**Audited February 2020 R'm**
Capital commitments approved by the board			
Contracted for:			
Property and equipment	**9**	487	254
Intangible assets	**145**	114	94
Not contracted for:			
Property and equipment	**287**	569	501
Intangible assets	**74**	59	128
	515	1 229	977
Loan commitments	**2 389**	1 188	1 825
Retail	**2 123**	1 188	1 522
Business	**266**	–	303
Guarantees – business (property bonds)	**594**	–	639
	2 983	1 188	2 464
Contingent liabilities			
VAT	**27**	27	27

5. Fair values

R'm	31 August 2020 Retail	Business	Total	31 August 2019 Retail	Business	Total	Hierarchy of valuation technique
Financial assets							
Net loans and advances	**45 366**	**9 886**	**55 252**	46 922	–	46 922	**Level 3**
Financial assets at FVTPL	**2 049**	**–**	**2 049**	–	–	–	**Level 2**
Financial instruments at FVOCI	**70**	**–**	**70**	100	–	100	**Level 3**
Derivative assets	**6**	**15**	**21**	5	–	5	**Level 2**
Financial liabilities							
Deposits	**97 566**	**12 802**	**110 368**	81 375	–	81 375	**Level 2**
Wholesale funding	**2 400**	**316**	**2 716**	4 007	–	4 007	**Level 2**
Derivative liabilities	**72**	**11**	**83**	34	–	34	**Level 2**

6. Segmental analysis

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

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

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

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

Retail banking

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

Business banking

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

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

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

R'm	Unaudited August 2020 Retail	Business	Total	Unaudited August 2019 Retail	Business	Total
Lending, investment and insurance income	**8 899**	**577**	**9 398**	9 038	–	9 038
Interest income	7 908	574	8 404	8 124	–	8 124
Loan fee income	493	3	496	474	–	474
Net insurance income	498	–	498	440	–	440
Lending and investment expenses	**(2 498)**	**(263)**	**(2 680)**	(2 732)	–	(2 732)
Interest expense	(2 470)	(263)	(2 652)	(2 677)	–	(2 677)
Loan fee expense	(28)	–	(28)	(55)	–	(55)
Net lending, investment and insurance income	**6 401**	**314**	**6 718**	6 306	–	6 306
Transaction fee income	4 904	461	5 366	4 819	–	4 819
Transaction fee expense	(1 265)	(231)	(1 496)	(1 290)	–	(1 290)
Net transaction income	**3 639**	**230**	**3 870**	3 529	–	3 529
Dividend income	–	–	–	–	–	–
Credit impairments	(5 821)	(265)	(6 086)	(2 115)	–	(2 115)
Foreign currency income	–	47	47	–	–	–
Funeral income	350	–	350	107	–	107
Other income	(16)	25	7	11	–	11
Net income	**4 553**	**351**	**4 906**	7 838	–	7 838
Operating expenses	(3 932)	(409)	(4 341)	(4 003)	–	(4 003)
Amortisation of intangible assets – core deposits[1]	–	–	(7)	–	–	–
Share of net profit of associates and joint ventures	(20)	–	(20)	(3)	–	(3)
Operating profit before tax	**601**	**(58)**	**538**	3 832	–	3 832
Income tax expense	74	11	84	(879)	–	(879)
Tax on amortisation of intangible assets[1]	–	–	2		–	–
Profit for the period	**675**	**(47)**	**624**	2 953	–	2 953
Assets						
Net loans and advances	45 630	9 886	55 517	47 403	–	47 403
Other[2]	85 337	6 298	88 067	66 193	–	66 193
Acquisition of Mercantile	–	–	936	–	–	–
Goodwill[1]	–	–	849	–	–	–
Intangible asset – Core deposit intangible[1]	–	–	71	–	–	–
Intangible asset – Client relationships[1]	–	–	16	–	–	–
Total assets[2]	**130 967**	**16 184**	**144 520**	113 596	–	113 596

[1] *Consolidation entries*
[2] *The retail and business banking assets include an amount of R1.8 billion (August 2019: Rnil) in investments that eliminates against liabilities at a group level*

R'm	Audited 29 February 2020 Retail	Business	Total
Lending, investment and insurance income	18 537	479	19 002
Interest income	16 581	474	17 041
Loan fee income	975	5	980
Net insurance income	981	–	981
Lending and investment expenses	(5 534)	(250)	(5 770)
Interest expense	(5 444)	(250)	(5 680)
Loan fee expense	(90)	–	(90)
Net lending, investment and insurance income	13 003	229	13 232
Transaction fee income	10 095	168	10 263
Transaction fee expense	(2 736)	(111)	(2 847)
Net transaction income	7 359	57	7 416
Dividend income	–	–	–
Credit impairments	(4 360)	(114)	(4 474)
Foreign currency income	–	38	38
Funeral income	413	–	413
Other income	19	13	32
Net income	16 434	223	16 657
Operating expenses	(8 392)	(216)	(8 608)
Amortisation of intangible assets – core deposits and client relationships[1]	–	–	(4)
Share of net profit of associates and joint ventures	11	–	11
Operating profit before tax	8 053	7	8 056
Income tax expense	(1 802)	(4)	(1 806)
Tax on amortisation of intangible assets[1]	–	–	1
Profit for the period	6 251	3	6 251
Assets			
Net loans and advances	52 013	10 030	62 043
Other[2]	67 854	5 720	71 637
Acquisition of Mercantile	–	–	888
Goodwill[1]	–	–	795
Intangible asset – Core deposit intangible[1]	–	–	76
Intangible asset – Client relationships[1]	–	–	17
Total assets[2]	119 867	15 750	134 568

(1) Consolidation entries

(2) The retail and business banking assets include an amount of R1.8 billion (August 2019: Rnil) in investments that eliminates against liabilities at a group level

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

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