Integrated Annual Report **2023**

building the future

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

Contents

building the future

Our purpose is to make banking simple and transparent so that everyone can live better. We are **building the future** to **unlock value** for our 20 million clients so that they can live better. We provide innovative products and services that positively impact our clients' everyday lives while remaining true to our fundamentals of simplicity, affordability, accessibility and personalised experience.

About this report

Capitec Bank Holdings Limited (Capitec or the group) is listed on the Johannesburg Stock Exchange Limited (JSE). It owns the operating subsidiaries Capitec Bank Limited (Capitec Bank or the bank), Capitec Ins Proprietary Limited (Capitec Ins) and Capitec Life Limited (Capitec Life).

What we cover

This report provides information about Capitec's operational and financial performance for the financial year 1 March 2022 to 28 February 2023. Any material events after this date and up to the board approval date have also been included.

We demonstrate how we will continue to add value for our stakeholders through our business model, strategies, innovations and responsible approach to governance.

Materiality

The integrated annual report focuses on matters that have the potential to materially impact our ability to create and sustain value over the short, medium and long term.

Management is not aware of any material information that was unavailable or any legal prohibitions to the publication of any information in this report.

What guided us

This report was compiled in accordance with:

- the Companies Act of South Africa, Act 71 of 2008 (Companies Act)
- International Financial Reporting Standards (IFRS)
- the International Integrated Reporting Framework of the International Integrated Reporting Council
- the JSE Listings Requirements
- the King IV Report on Corporate Governance for South Africa, 2016™ (King IV™)
- the United Nations Sustainable Development Goals (UN SDGs).

Forward-looking statements

Certain statements in this report may be regarded as forward-looking statements or forecasts about the group's strategy, performance and operations but do not represent an earnings forecast or guarantee. Actual results and outcomes may differ materially from those expressed in or implied by these statements as they relate to future events and circumstances. All forward-looking statements are based solely on the views and considerations of the directors. These forward-looking statements have not been reviewed and reported on by the external auditors.

Assurance

Our joint external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche (Deloitte), independently provided assurance on the fair presentation of the financial statements for the year ended 28 February 2023. The external auditors also read the integrated annual report and considered whether any information provided is materially inconsistent with the financial statements or their knowledge obtained during the course of their audit or otherwise appears to be materially misstated. No such misstatement was reported.

We appreciate your feedback

If you would like to know more about us, please visit our website at **www.capitecbank.co.za**.

We welcome any feedback stakeholders may have on this report. Kindly email us at **enquiries@capitecbank.co.za**.

Board approval

The Capitec board is responsible for overseeing the integrity and completeness of this report. The board, the audit committee, the human resources and remuneration committee (REMCO) and the social, ethics and sustainability committee (SESCO) considered the accuracy and completeness of the report and are satisfied with the reliability of all data and information. In the board's opinion, this report addresses all matters that are material to the group's ability to create value. The board is satisfied that the report fairly presents the integrated performance of the group for the reporting period. It was approved and signed on behalf of the board on 18 April 2023 by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Navigation tools

Capitals

Financial
Manufactured
Human
Intellectual
Social and relationship
Natural

Strategic objectives

Client experience
Client quality
Digital
World-class data business
Business delivery
People
New capabilities

Our fundamentals

Simplicity
Affordability
Accessibility
Personal experience

Our products

Transact
Save
Insure
Credit
Live Better
Connect

Alignment with the UN SDGs

We are creating long-term value by contributing to positive outcomes towards the UN SDGs. We identified the 9 goals below as those where we believe we can have the most meaningful impact.

01

performance and outlook

5 years
at a glance
page 6

Report from the
Chairman and
Chief Executive Officer
page 9

Report from the
Chief Financial Officer
page 14

Headline earnings per share
+15% to 8 420 cents

Headline earnings
+15% to R9.7 billion

Final dividend per ordinary share
2 800 cents

Deposits
+9% to R144.1 billion

Return on equity (ROE)
26%

Capital adequacy ratio
34%

Retail clients using digital channels
+13% to 11.4 million

Active clients
+11% to 20.1 million

5 years at a glance

		2023	2022	% change[1] 2023/2022	2021	2020[2]	2019
Profitability							
Interest income on lending	R'm	**15 799**	13 247	19	13 401	13 552	12 723
Interest income on investments and other financial instruments	R'm	**5 400**	4 207	28	3 143	3 489	2 778
Total interest income	R'm	**21 199**	17 454	21	16 544	17 041	15 501
Net loan fee income	R'm	**1 079**	951	13	898	890	712
Net credit life insurance income	R'm	**1 889**	1 540	23	965	981	795
Total lending, investment and insurance income less loan fee expense	R'm	**24 167**	19 945	21	18 407	18 912	17 008
Interest expense	R'm	**(6 993)**	(4 838)	45	(4 985)	(5 680)	(4 510)
Net lending, investment and insurance income	R'm	**17 174**	15 107	14	13 422	13 232	12 498
Net transaction and commission income	R'm	**11 461**	10 515	9	8 708	7 416	6 464
Net foreign currency income	R'm	**162**	144	13	111	38	—
Funeral plan income	R'm	**1 431**	906	58	650	413	54
Other income[3]	R'm	**79**	290	(73)	114	32	3
Income from operations	R'm	**30 307**	26 962	12	23 005	21 131	19 019
Credit impairments	R'm	**(6 329)**	(3 508)	80	(7 825)	(4 474)	(4 450)
Net income	R'm	**23 978**	23 454	2	15 180	16 657	14 569
Operating expenses	R'm	**(11 877)**	(12 555)	(5)	(9 463)	(8 612)	(7 494)
Share of net profit/(loss) of associates and joint ventures	R'm	**98**	36	>100	(7)	11	2
Impairment of investments	R'm	**—**	—		(122)	—	—
Operating profit before tax	R'm	**12 199**	10 935	12	5 588	8 056	7 077
Income tax expense	R'm	**(2 492)**	(2 408)	3	(1 130)	(1 805)	(1 781)
Profit after tax	R'm	**9 707**	8 527	14	4 458	6 251	5 296
Preference dividend	R'm	**(4)**	(3)	33	(4)	(7)	(9)
Discount on repurchase of preference shares	R'm	**—**	(1)		(2)	(1)	(2)
Earnings attributable to ordinary shareholders[4]							
Basic	R'm	**9 703**	8 523	14	4 452	6 243	5 285
Headline	R'm	**9 709**	8 440	15	4 586	6 277	5 292
Net transaction and commission, net foreign currency and funeral plan income to net income	%	**54**	49		62	47	45
Net transaction and commission, net foreign currency and funeral plan income to operating expenses	%	**110**	92		100	91	87
Cost-to-income ratio	%	**39**	47		41	41	39
Return on ordinary shareholders' equity	%	**26**	26		17	28	28
Earnings per share							
Attributable	cents	**8 415**	7 371	14	3 850	5 400	4 571
Headline	cents	**8 420**	7 300	15	3 966	5 428	4 577
Number of shares for calculation	'000	**115 309**	115 627		115 627	115 627	115 627
Diluted attributable	cents	**8 392**	7 360	14	3 848	5 391	4 562
Diluted headline	cents	**8 397**	7 289	15	3 963	5 420	4 568
Number of shares for calculation	'000	**115 617**	115 800		115 698	115 800	115 853
Dividends per ordinary share							
Interim	cents	**1 400**	1 200	17	—	755	630
Final	cents	**2 800**	2 440	15	1 600	—	1 120
Total	cents	**4 200**	3 640	15	1 600	755	1 750
Number of shares for calculation	'000	**116 100**	116 100		115 627	115 627	115 627
Dividend cover	times	**2.0**	2.0		2.5	7.2	2.6
Special dividend	cents	**—**	1 500		—	—	—

[1] *The percentage changes quoted in the Reports from the Chairman and Chief Executive Officer and the Chief Financial Officer are based on figures denominated in R'million.*

[2] *Other income for 2022 includes R198.2 million in compensation related to the civil unrest in July 2021 received from Sasria SOC Limited.*

[3] *2020 figures include Business bank for the 4 months ended February 2020. Business bank figures for 12 months are included in 2021, 2022 and 2023.*

[4] *Refer to note 30 to the financial statements for detail regarding the difference between basic and headline earnings.*

		2023	2022	% change[1] 2023/2022	2021	2020[2]	2019
Assets							
Net loans and advances	R'm	**78 168**	66 549	17	57 189	62 043	44 515
Cash and financial investments[3]	R'm	**95 965**	97 901	(2)	84 625	59 439	49 208
Other[4]	R'm	**17 668**	13 493	31	14 693	13 086	6 705
Total assets	R'm	**191 801**	177 943	8	156 507	134 568	100 428
Liabilities							
Deposits and wholesale funding	R'm	**146 498**	134 458	9	120 908	103 343	76 443
Other	R'm	**6 218**	7 720	(19)	5 684	5 644	2 309
Total liabilities	R'm	**152 716**	142 178	7	126 592	108 987	78 752
Equity							
Shareholders' funds (total equity)	R'm	**39 085**	35 765	9	29 915	25 581	21 676
Capital adequacy ratio (CAR)	%	**34**	36		37	31	34
Net asset value (NAV) per ordinary share	cents	**33 760**	30 888	9	25 824	22 061	18 676
Number of shares for calculation	'000	**115 627**	115 627		115 627	115 627	115 627
Share price	cents	**175 451**	207 435	(15)	133 875	129 999	130 621
Market capitalisation	R'm	**203 699**	240 832	(15)	154 796	150 314	151 033
Number of shares in issue per the shareholders' register	'000	**116 100**	116 100		115 627	115 627	115 627
Operations							
Branches		**860**	853	1	857	864	840
Employees		**15 451**	14 758	5	14 672	14 590	13 774
Active clients (including POS merchants)[5]	'000	**20 105**	18 104	11	15 829	13 887	11 386
ATMs, DNRs and CNRs[6]		**7 898**	7 178	10	6 725	5 652	5 011
Capital expenditure	R'm	**1 163**	863	35	837	1 403	1 141
Credit sales							
Retail bank – value of total loans advanced	R'm	**52 928**	43 932	20	29 334	39 116	30 968
Value of credit card disbursements/drawdowns	R'm	**13 484**	11 011	22	9 659	9 799	6 193
Value of access facility disbursements/drawdowns	R'm	**19 779**	14 167	40	6 398	—	—
Value of term loans advanced (net of loan consolidations)	R'm	**19 665**	18 754	5	13 071	28 666	23 475
Value of credit facility disbursements/drawdowns	R'm	**—**	—		206	651	1 300
Business bank – value of total loans advanced	R'm	**65 484**	53 903	21	48 918	15 642	—
Value of mortgage loans advanced	R'm	**2 585**	2 268	14	1 553	509	—
Value of business loans advanced	R'm	**3 043**	2 443	25	2 245	809	—
Value of overdraft disbursements/drawdowns[7]	R'm	**59 856**	49 192	22	45 120	14 324	—
Value of total loans advanced	R'm	**118 412**	97 835	21	78 252	54 758	30 968

[1] *The percentage changes quoted in the Reports from the Chairman and Chief Executive Officer and the Chief Financial Officer are based on figures denominated in R'million.*

[2] *2020 figures include Business bank for the 4 months ended February 2020. Business bank figures for 12 months are included in 2021, 2022 and 2023.*

[3] *Cash, cash equivalents, money market funds, government bonds, term deposits and other financial investments.*

[4] *Net insurance receivable, other receivables, derivative assets, interest in associates and joint ventures, property, plant and equipment, right-of-use assets, intangible assets including goodwill and deferred income tax asset.*

[5] *Point-of-sale merchants.*

[6] *Automated teller machines, dual note recyclers and coin and note recyclers.*

[7] *Overdraft disbursements/drawdowns are gross of repayments.*

5 years at a glance continued

		2023	2022	% change[1] 2023/2022	2021	2020[2]	2019
Credit book							
Gross loans and advances	R'm	**97 815**	84 108	16	75 026	75 783	55 895
Retail bank	R'm	**82 297**	71 214	16	63 986	65 438	55 895
Stage 1	R'm	**50 320**	44 591	13	38 711	48 311	41 587
Stage 2	R'm	**13 518**	12 758	6	10 184	5 618	4 852
Stage 3	R'm	**18 459**	13 865	33	15 091	11 509	9 456
Business bank	R'm	**15 518**	12 894	20	11 040	10 345	—
Stage 1	R'm	**13 177**	10 706	23	8 985	9 315	—
Stage 2	R'm	**1 213**	1 287	(6)	1 294	449	—
Stage 3	R'm	**1 128**	901	25	761	581	—
Provision for credit impairments (expected credit losses (ECL))	R'm	**(19 647)**	(17 559)	12	(17 837)	(13 740)	—
Retail bank	R'm	**(18 806)**	(16 776)	12	(17 184)	(13 425)	(11 380)
Business bank	R'm	**(841)**	(783)	7	(653)	(315)	—
Net loans and advances	R'm	**78 168**	66 549	17	57 189	62 043	44 515
Retail bank	R'm	**63 491**	54 438	17	46 802	52 013	44 515
Business bank	R'm	**14 677**	12 111	21	10 387	10 030	—
Gross credit impairment charge on loans and advances	R'm	**7 041**	4 286	64	8 697	5 737	4 917
Bad debts recovered	R'm	**707**	818	(14)	932	1 263	467
Net credit impairment charge on loans and advances[3]	R'm	**6 334**	3 468	83	7 765	4 474	4 450
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)	%	**7.0**	4.4		10.3	6.3	8.6
Total lending and insurance income (excluding investment income)[4]	R'm	**18 776**	15 756	19	15 335	15 517	14 448
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)[4]	%	**33.7**	22.0		50.6	28.8	30.8
Deposits and wholesale funding							
Wholesale funding	R'm	**2 439**	2 060	18	2 376	3 694	5 078
Call savings	R'm	**96 252**	89 167	8	78 113	62 582	45 141
Fixed savings	R'm	**46 533**	41 928	11	39 176	36 183	26 224
Foreign currency deposits	R'm	**1 274**	1 303	(2)	1 243	884	—

[1] The percentage changes quoted in the Reports from the Chairman and Chief Executive Officer and the Chief Financial Officer are based on figures denominated in R'million.

[2] 2020 figures include Business bank for the 4 months ended February 2020. Business bank figures for 12 months are included in 2021, 2022 and 2023.

[3] This charge is for loans and advances only. The income statement charge for the reporting period includes a release of R4.3 million (2022: expense of R39.6 million; 2021: expense of R59.9 million) related to other financial assets.

[4] Interest received on loans, initiation fees, monthly service fees and net insurance income.

Report from the Chairman and Chief Executive Officer

We grew and built for the future during tough times.

Our performance reflected resilience during tough times as the group delivered growth of 15% in headline earnings to R9.7 billion. In the face of the current challenging environment, we continued to support our clients by giving back to them while building the future of financial services. We made significant investments in strategic projects to support our objective of unlocking value for our 20 million clients by improving their financial lives through various new initiatives.

Economic challenges and tough times for the consumer

During the 2022 financial year, the South African economy recovered from the COVID-19 pandemic. The economy was boosted by higher commodity prices which contributed to an improvement in the country's fiscal position, but overshadowed the underlying factors that continued to impede the country's ability to reach its potential in terms of sustainable growth for the long term. This reflected in the group's performance for 2022.

On 24 February 2022 Russia invaded Ukraine. The invasion resulted in significant increases in both energy and food prices and created supply chain disruptions. The economic stimulus packages implemented by many countries, as well as the lengthy COVID-19 lockdown in China during 2022, all contributed to high global inflation rates and the subsequent risk of increased interest rates and a global recession. These geopolitical events resulted in high local inflation rates which, together with the continued uncertainty around load shedding and lower business confidence, led to greater financial constraints on consumers and businesses in South Africa.

Understanding the impact on our clients

At the end of February 2023, we had 20.1 million active clients (2022: 18.1 million). This provides us with the financial data of approximately one-third of the South African population. This data allows us to understand our clients and the impact that the current deteriorating economic conditions are having on South Africans.

Our clients expended on average 8% more on groceries and 16% more on fuel for the 2023 financial year than in the previous financial year. The increase in spend on groceries was tempered by the effect of clients buying more affordable products. The value of the average annual home loan debit orders increased by 20%, and the average amount of vehicle finance debit orders grew by 15%.

The average increase in income into client accounts, however, only grew by on average 4% compared to 10% for the comparative period.

Report from the Chairman and Chief Executive Officer continued

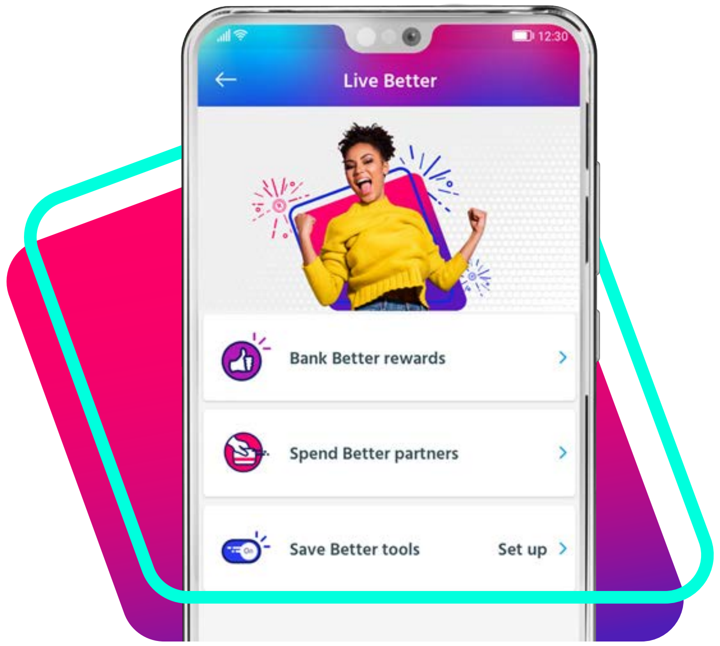
Our contribution to our clients, our people and society

Despite the impact of tough economic times on our operations, we continued to give back to our clients. Our call saving and fixed-term savings clients benefitted from the increases in the repo rate during the year in the form of increases in the interest rates paid on deposits. Interest paid on retail transactional accounts amounted to R1.8 billion, an increase of 80%. We paid on average 4% on transactional accounts while other banks generally paid zero.

At the beginning of March 2022, the fees for SMS notifications were reduced to 25 cents per notification, and in-app notifications at no charge were introduced. Through this initiative, we saved our clients R510 million in fees.

Qualifying Live Better rewards programme participants received cash backs on debit and credit card purchases amounting to R256 million. They also received Spend Better cash back rewards in the amount of R106 million from our rewards partners.

During the year, we launched several digital payment solutions such as Apple Pay, Samsung Pay and Google Pay, with zero transaction fees for local card purchases. We also introduced our own secure online payment tool, Capitec Pay, which protects users from screen scraping.



Financial education, community support, employee volunteerism, donations to partner organisations and disaster relief are the focus of our social responsibility efforts, and the group contributed R98 million to these endeavours during the 2023 financial year (2022: R57 million). Supplier and enterprise development investments amounted to R79 million (2022: R9 million).

Our people are the heart of the business and their personal development remains a core focus area as it drives retention and our culture. Our internal appointment rate of 49% reflects our commitment in upskilling our employees. A total of 7 331 employees attended over 50 000 training and development courses during the year.

Overview of financial results

The group's headline earnings increased by 15% to R9.7 billion. Profit from the Retail bank and Insurance business increased by 12% to R9.3 billion, while profit from the Business bank grew by 124% to R389 million.

Net lending, investment and insurance income grew by 14% to R17.2 billion (2022: R15.1 billion). The growth was driven by the impact of the growth in net loans and advances on interest income and credit life insurance income, and the impact of repo rate increases on interest income as well as interest expenses. Funeral plan income benefitted from the continued growth in the active book combined with better claims experience.

Net transaction and commission income grew to R11.5 billion (2022: R10.5 billion), while funeral plan income grew by 58% to R1.4 billion (2022: R0.9 billion). The growth in income from operations to R30.3 billion (2022: R27.0 billion) was offset by an increase of 80% in the credit impairment charge due to the normalisation of the credit loss ratio post the COVID-19 pandemic. Operating expenses decreased by 5%.

Net loans and advances grew by 17% to R78.2 billion (2022: R66.5 billion), while total deposits and wholesale funding grew from R134.5 billion to R146.5 billion. We are well capitalised with a common equity tier 1 (CET1) ratio of 34% and CAR of 34%. Our capital and liquidity ratios are well above the regulatory and board-specific requirements and the return on shareholders' equity was stable at 26% (2022: 26%).

Ordinary dividends declared

The board approved a final gross dividend of 2 800 cents per ordinary share (2022: 2 440 cents), bringing the total dividend for the 2023 financial year to 4 200 cents per share (2022: 3 640 cents). Post the distribution, the group's capital ratios will remain healthy and will position us well for the future.

Investment in building the future

The group was founded on 4 fundamental principles. Our vision is to make banking in South Africa simpler, more accessible and more affordable while at the same time, delivering a personalised client experience. In our 22 years of existence, we have expended a substantial portion of our efforts on innovation to ensure that we deliver on our vision.

As at 28 February 2023, we had 20.1 million active retail and business banking clients (33% of South Africa's total population) and a footprint of 860 branches and 7 898 ATMs and DNRs throughout South Africa.

The group has expanded to 3 businesses: Retail bank, Business bank and Insurance. Each business is led by an experienced management team.

Retail bank

Our GlobalOne banking fees have challenged the *status quo* in the market since launch. Our fees are transparent, easy to understand and have been among the lowest in the market for a considerable number of years.

Our long-term strategy is to shift our clients towards more affordable and secure digital solutions. The price changes in our banking fees during March 2023 reflected our long-term strategy with digital transaction fees remaining flat while cash-related fees increased. We also introduced our own secure online payment tool, Capitec Pay, which is the first bank-endorsed application programming interface payment solution. Capitec Pay protects clients from screen scraping.

We expanded our value-added service offering by adding national lottery ticket purchases, bill payments and voucher purchases from participating retailers to the already established prepaid purchases, send cash and utility payments. Client-adoption of these digital solutions has exceeded our expectations. We see numerous opportunities to grow this suite of products and to attain significant shares in the markets for the various products.

Capitec Connect, our own prepaid mobile service, was introduced in the market during September 2022 with flat, low prepaid rates on data and no fees for recharges. Capitec Connect data is arguably the lowest-priced data offering in the market and does not expire. With Capitec Connect, we introduced digital inclusivity and created the opportunity for everyone to connect using a prepaid solution that is easy to understand. To date, we have issued 500 000 SIM cards to subscribers.

The Live Better rewards programme encourages clients to Bank Better, Save Better and Spend Better and gained significant traction during the year. The objective of Live Better is to attract quality clients and reward them when they transact using digital channels instead of cash.

Business bank

Our vision is to deliver a no-frills, digitally-led banking solution based on the same fundamentals that made Capitec Retail bank a success.

To fast-track our expansion into the business banking environment, we acquired Mercantile Bank in November 2019. The business' core offering is banking solutions for small- and medium-sized enterprises (SMEs) which were historically under-served by the South African banking industry.

We have invested a significant amount of time, energy and resources to ensure that the Business bank is ready for a fully fledged integration with the rest of the group.

Capitec Business will offer SMEs one solution for all their business needs. The aim is to make business banking simple, with one account for life at the most affordable price, with a simple and transparent fee structure.

Capitec Business caters for all entrepreneurs, small or large, and will enable them to grow their businesses with easy and instant access to credit. Our digital offering will allow clients to open a business account from anywhere and at any time without needing to visit a Business centre. Businesses will be able to manage their money from their personalised online banking platform and access both their personal and business banking profiles from a single app.

Clients will have access to additional products including merchant services, forex and payment services. Clients' needs will be met by digitally-led services and access to highly experienced relationship bankers at the click of a button or through 20 Business centres across South Africa. Clients will also be supported by Capitec retail branches and will have access to Capitec retail ATMs.

Capitec Business will give clients complete control and access to exactly what they need, when they need it, enabling them to bank better and focus on growing their businesses.

Report from the Chairman and Chief Executive Officer continued

Insurance

Our credit life and funeral plan insurance policies have been issued through 2 separate cell captive structures for several years.

During the current financial year, we have made significant strides towards achieving our vision of offering unique insurance solutions that reflect our fundamental principles. Capitec Life was granted a life insurance licence in October 2022.

The acquisition of the insurance licence, together with preparations for the implementation of the new insurance accounting standard IFRS 17 *Insurance Contracts,* resulted in an investment of R102 million in our Insurance business during the current financial year.

The transfer of our existing credit life policies that are held with Guardrisk Life Limited to Capitec Life has been initiated. The transfer is expected to be completed before the end of the 2024 financial year. Our existing cell captive arrangement, related to the sale of funeral plan policies, expires during the 2025 financial year and negotiations are currently underway regarding the way forward.

Technology

The availability of best-in-class technology is integral to our objective of providing our clients with an ecosystem of products and services that address their financial needs.

Our migration to Amazon Web Services (AWS) is nearing completion. We have migrated systems, enhanced disaster recovery plans and our banking app is also utilising this platform. The data insights that will be generated as a result of using AWS will further enhance our understanding of our clients' needs.

In order to improve client engagement, we have entered into partnerships with leading global technology firms such as Salesforce, Airship and nCino. These partnerships will play a vital role in the execution of the group's objective of being the best in class for the future.

During the year, we introduced conversational banking and the LivePerson framework. The platform is maturing rapidly and allows us to scale our skill sets to deliver exceptional client experiences and understand our clients better. It supports the Capitec ecosystem and our goal to become our clients' trusted financial friend.

Acknowledgement of our commitment to environmental, social and governance (ESG) principles

We care about the impact of our business activities on the environment and society. We therefore integrate ESG principles in our overall business strategy.

The impact of climate change on the world has swiftly resulted in ESG principles becoming top of mind for the business, as well as for investors and civil society. Over the past number of years, we have had many conversations, both internally and with external experts, regarding ways to improve our ESG focus, target setting and results.

As a large, listed corporate business in South Africa, we acknowledge and understand the role that we need to play as a responsible corporate citizen in addressing this global challenge. We strongly believe that everything we do should add value. It is in this spirit that we assess and treat ESG-related risks and join with government, regulators and our other stakeholders to build a sustainable future for generations to come.

During the past year, we reached a number of milestones:

- We published our first climate-related financial disclosure report in May 2022, with our second edition to follow next month
- We convened our inaugural sustainability committee meeting
- We increased internal capacity to address ESG principles, underscored by internationally accredited training successfully completed by key members of our sustainability office
- We joined the National Business Initiative to take advantage of their established network of partners to support our environmental and transformation ambitions.

During the upcoming year, we will start our journey towards setting science-based targets for our carbon emissions, including drafting a plan to transition to a net-zero organisation by 2050. We will expand on our current climate-related risk assessment of our retail and business credit books and also leverage any associated opportunities and improve our alignment to global reporting frameworks and best practice.

We would like to thank all our stakeholders for the many constructive discussions that we have had on this matter. We have considered your feedback and are continuing the enhanced application of ESG principles in our businesses.

Our people

Capitec's vision is to be the employer of choice for world-class individuals to unlock their full potential. As such, we remain focused on creating insights, opportunities and experiences that matter, inspire and motivate our 15 451 employees to drive the performance of the business.

The group is committed to empowering and upskilling our employees through education and mentorship. Our formal learning initiatives continue to play a key role in providing employees with additional development and growth opportunities, while also addressing key business pipeline requirements.

During the past year, we have introduced a new leadership structure to enable the development of young and diverse talent across the group. This is key to our success as it enables us to nurture our unique Capitec culture. This is evidenced by the fact that 49% of our vacant positions were filled by internal candidates.

The Izindaba Ezinhle Employee Share Scheme was launched during the prior financial year. As part of the scheme, nearly 10 500 permanent employees became Capitec shareholders. During the current reporting period, we distributed nearly R21 million in dividends as part of the scheme. It gives us great satisfaction to share the success of the group with our employees and for them to feel proud to be Capitec shareholders.

Remuneration policy

The remuneration report, which can be found on pages 105 to 131, includes detail on the actions taken to address the concerns of shareholders who voted against the remuneration policy at the annual general meeting (AGM) in May 2022.

Engagement with our shareholders is critical to us and we would like to thank them for the meaningful discussions and valuable input that they have provided during the year.

Governance

Firstly, we would like to express our gratitude to our fellow board members for their unwavering support and the invaluable guidance that they provide. We are fortunate to have a highly engaged board with vast experience within the financial services industry.

We would like to thank André du Plessis who retired as chief financial officer (CFO) and as an executive director from the board effective 30 June 2022. As one of the founding members of the group, his immense contribution to the success of the group over the past 22-years was tremendous.

We would also like to extend our thanks to Nkosana Mashiya who resigned from the board as an executive director effective 31 March 2023. As the executive: risk management, he has played a pivotal and leading role in strengthening the group risk policies and in the management of the discipline of risk in the group. An acting executive: risk management has been appointed until such time as a new executive: risk for the group is recruited.

Lastly, we would like to welcome Grant Hardy who was appointed as the CFO and an executive director on the board effective 1 July 2022.

Appreciation

The 2023 financial year was a challenging year, but we were encouraged by the commitment and passion of our employees who continued to serve our clients to the best of their ability. The way in which each employee lives the founding fundamentals of the group makes it possible for management to execute on its strategic objectives. Thank you for your commitment and effort in serving and creating value for all our clients.

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
18 April 2023

Report from the Chief Financial Officer

Commitment to our purpose and strategic objectives enabled us to deliver headline earnings growth of 15% and a return on equity of 26%.

Headline earnings for the year ended 28 February 2023 increased by 15% to R9.7 billion (2022: R8.4 billion) and return on equity was 26% (2022: 26%).

Our financial performance for the year reflected the challenging macroeconomic conditions that impacted South Africa, our clients and ultimately our business.

Regardless of the challenging operating environment, we remained focused on executing key strategies, future growth objectives as well as potential opportunities.

Financial performance

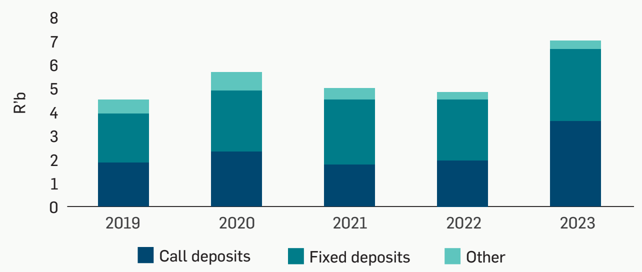
Net lending, investment and insurance income

The group's net lending, investment and insurance income increased by 14% to R17.2 billion (2022: R15.1 billion).

Interest income on lending increased from R13.2 billion in the comparative year to R15.8 billion. This was attributable to the 325 basis points increase in the repo rate, 16% growth in gross loans and advances and the continued shift in the composition of the retail gross loans and advances towards variable interest rate-linked facilities.

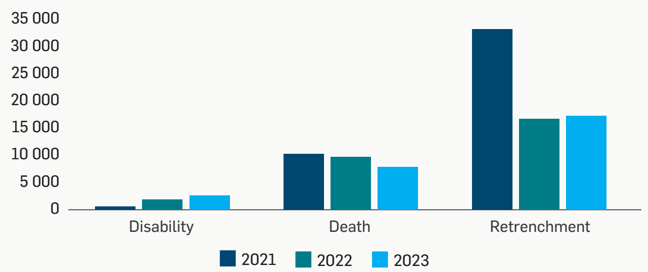
Interest income on investments and other financial instruments grew by R1.2 billion to R5.4 billion (2022: R4.2 billion), underpinned by higher yields resulting from the higher interest rates and the improved yield on the treasury bills portfolio. The group's interest expense on deposits and wholesale funding increased by 45% to R7.0 billion (2002: R4.8 billion). The growth was driven by the growth in deposit balances and the increases in the repo rate that were passed on to clients. We paid R1.8 billion in interest on transactional accounts, an increase of 80%.

Interest expense by nature



Net credit life insurance income of R1.9 billion (2022: R1.5 billion) was 23% higher than in the comparative year. The portfolio benefitted from the growth in retail gross loans and advances as credit life insurance is charged on the outstanding loan balance. The average insured book for the 2023 financial year was R71.1 billion (2022: R61.9 billion) and, as a consequence, the net premiums written increased by 13% to R3.3 billion (2022: R2.9 billion). The credit life claims expense decreased by 10% to R853 million (2022: R946 million) as the number of claims settled decreased. The number of death claims decreased by 18%, while the retrenchment claims increased by 3%. The slightly better claims experience during the reporting period resulted in a release of R37 million in the incurred but not yet reported provision.

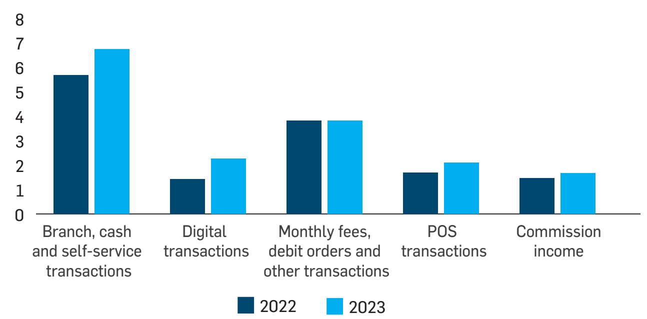
Number of claims settled by risk



Net transaction income and commission

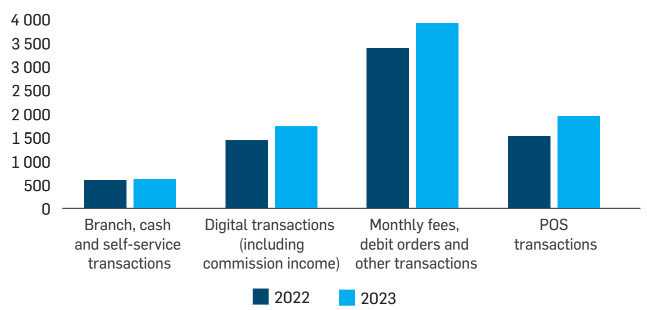
The group's net transaction and commission income increased by 9% to R11.5 billion (2022: R10.5 billion). Our long-term strategy is to move clients away from cash transacting to digital transacting. The price changes in our banking fees during March 2023 reflected this, with digital transaction fees remaining flat while cash-related fees increased.

Transaction income per category



Our total active client base grew 11% to 20.1 million (2022: 18.1 million) of which 11.4 million (2022: 10.1 million) are already actively using our digital transaction channels.

Transaction volumes per category (million)



Net transaction and commission income from value-added services, which include Send Cash payments, prepaid purchases of electricity, data and airtime, national lottery ticket purchases, bill payments and vouchers, grew by 33% to R1.6 billion (2022: R1.2 billion). Prepaid sales for the year were approximately R29 billion, up 11% from the comparative year. Our clients purchase more than 30% of the prepaid airtime and data sold in South Africa across all networks using our channels. In February 2023, we reported more than 1.1 million bill payment transactions, only 4 months after the launch of the product.

POS transaction volumes of 1.9 billion (2022: 1.5 billion) were 28% higher than the comparative period and generated R1.4 billion (2022: R1.2 billion) in POS fee income. The higher volumes were driven by factors such as the execution of our long-term strategy to move clients away from cash. The Live Better programme, which has only been in place for a year, rewards clients for transacting with their debit and credit cards instead of cash. Qualifying participants received R256 million in cash backs during the year. The benefits of this strategy will realise in the future as we attract more quality clients.

Cash-related transaction volumes grew by only 5% to 562 million (2022: 535 million). Our strategy of moving clients to digital transacting and the impact of persistent load shedding on the availability of our cash devices led to the lower growth in cash transacting.

We gave R510 million back to clients through the reduction in the SMS notification fees and the introduction of free in-app notifications as part of our digital strategy. Excluding the reduction in SMS notification fees, the growth in net transaction and commission income was 14%.

Funeral plan income

Funeral plan income increased by 58% to R1.4 billion (2022: R0.9 billion), driven by a number of factors.

The active funeral book grew to 2.2 million policies (2022: 1.7 million) at the end of February 2023. The increase in the average active funeral book translated into a 40% increase in premium income. Premium collection rates improved slightly and averaged 88% (2022: 87%) for the year. Claims of approximately R2.5 billion (2022: R2.0 billion) were paid out, however, the average claims ratio for the year improved to 69% (2022: 76%). Persistency in the 12 months after a policy was issued remained strong at a rate of 57% (2022: 58%) and is a key indicator of the quality of the active policy book.

Credit impairment charge and loans and advances

The group's gross loans and advances increased by 16% to R97.8 billion (2022: R84.1 billion) and the provision for credit impairments (ECL (expected credit losses)) grew from R17.6 billion to R19.6 billion. The group's total net credit impairment charge on gross loans and advances increased by 80% to R6.3 billion (2022: R3.5 billion).

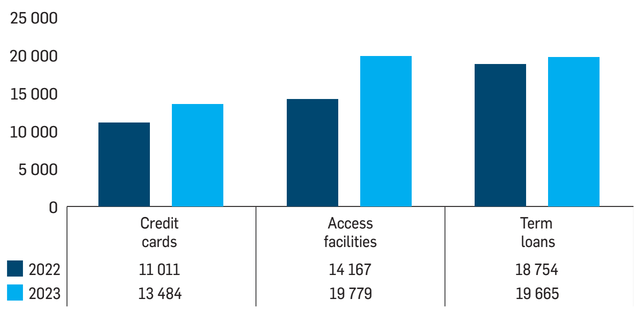
Report from the Chief Financial Officer continued

Retail bank

Loan sales

The current elevated cost of living in South Africa led to an increase in the demand for credit during the past 12 months. According to the National Credit Regulator's Consumer Credit Market Report (CCMR), the total number of all types of credit applications during the 12 months ended 30 September 2022 increased by 22% to 53.7 million (September 2021: 43.9 million), while the approval rate declined to 49% (September 2022: 56%). The Retail bank received 4.1 million (2022: 3.5 million) applications during the year and the decline rate increased to 55% (2022: 46%).

Loans disbursed by product (R'm)



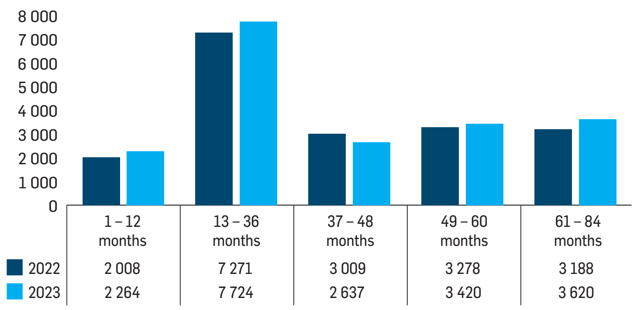
The CCMR noted that the total unsecured and short-term credit granted increased by 22% to R118.0 billion (September 2022: R96.4 billion). Unsecured credit granted by the Retail bank increased by 20% to R52.9 billion (2022: R43.9 billion). This was primarily driven by the access facility and credit card disbursements that grew by 40% and 22%, respectively, to R19.8 billion (2022: R14.2 billion) and R13.5 billion (2022: R11.0 billion). These 2 products comprised 63% (2022: 57%) of the total loan sales and disbursements.

The shift in the composition of the total loan sales and disbursements is illustrated in the table below.

%	2023	2022
Term loans	37	43
Access facilities	37	32
Credit cards	26	25
	100	100

The growth in the access facility disbursements was due to new limits granted as well as ongoing utilisation by the growing access facility client base. Utilisation of limits was 61% (2022: 58%) at the financial year-end.

Term loans disbursed by term (R'm)



Credit impairment charge and loans and advances

An understanding of the credit impairment charge can only be gained by analysing the trend over the past 4 years. The 2020 financial year was our last reporting year prior to the COVID-19 pandemic, and the economic upheaval during 2021 and 2022 must be considered to provide context to the 2023 charge.

R'm	2023	2022	2021	2020
Charge on new loan sales net of settlements	4 060	2 745	1 637	2 852
Charge on existing book	4 522	2 957	8 431	4 297
Migration in book	6 726	3 195	5 951	4 009
Forward-looking information macroeconomic provision	(2 204)	(238)	2 480	288
Stage 3 interest derecognition	(1 758)	(1 595)	(1 779)	(1 526)
Gross credit impairment charge	6 824	4 107	8 289	5 623
Bad debts recovered	(702)	(815)	(929)	(1 263)
Net credit impairment charge	6 122	3 292	7 360	4 360

During 2021, the impact of the COVID-19 pandemic was evident in the credit impairment charge for the first time. The hard lockdown started during the first month of that financial year, March 2020. Credit granting criteria were tightened resulting in a charge of only R1.6 billion on new loan sales net of settlements for 2021. A total of R7.5 billion in balances was rescheduled and migrated into stages 2 and 3 as illustrated by the R6.0 billion charge related to deterioration in the book. COVID-19-related reschedules carried higher provision percentages until 6 consecutive contractual repayments had been made after which they were regarded as rehabilitated. Due to the weak forward-looking economic forecast at the end of the 2021 financial year, the forward-looking macroeconomic provision increased by R2.5 billion.

The 2022 charge reflected the recovery from the initial impact of the pandemic. The R2.7 billion charge on new loan sales net of settlements for 2022 reflected the relaxation of credit granting criteria for specific pockets of clients from November 2021. The COVID-19-related reschedules continued to rehabilitate as reflected by the lower migration in the loan book than in 2020. Due to the war in Ukraine which commenced in February 2022, and the resulting negative macroeconomic forecast at the end of February 2022, the forward-looking macroeconomic provision decreased marginally by R0.2 billion.

The 2023 new loan sales charge of R4.1 billion reflects the relaxing of credit granting criteria in the last calendar months of 2021. When the impact of higher inflation and increased interest rates became apparent, we started tightening credit granting criteria in June 2022 to take the increasing financial constraints on our clients into account. Excluding the growth of R1.3 billion in the charge related to new loan sales, the credit impairment charge for 2023 grew by 46% from the comparative year. The charge related to deterioration in the book grew to R6.7 billion as economic conditions put pressure on our credit clients. There was an increase in clients going into debt review, rolling into arrears and default, and balances being rescheduled. Debt review balances increased to R5.6 billion (2022: R4.9 billion). Handed over balances, which remain on book while they perform in accordance with the payment arrangements made, increased from R3.8 billion to R4.9 billion.

As the negative economic forecast as at February 2022 manifested in the base provision model, there was a decrease in the forward-looking macroeconomic provision. The economic indicators at the end of February 2023 did not indicate as much deterioration as they had at the end of February 2022 and, as a consequence, the forward-looking macroeconomic provision reduced by R2.2 billion. At the end of the 2023 financial year, the forward-looking macroeconomic provision was R0.8 billion.

Performing access facility balances nearly doubled to R18.5 billion (2022: R9.5 billion) at the end of the current year. The access facility is revolving in nature and therefore we save the cost of a client coming into a branch to reapply for credit. Credit impairments on undrawn access facility limits are having an increasing impact on the credit loss ratio as the access facility book grows and provisions are held on the undrawn limits. The facility products do, however, provide us with the ability to dynamically adjust limits in accordance with changes in credit risk. At the end of the 2023 financial year, undrawn limits on the access facility and credit card products amounted to R15.8 billion (2022: R11.3 billion). We actively monitor the credit risk on access facilities and adjusted R3.5 billion (2022: R1.3 billion) in limits downwards during the year.

Bad debts recovered (excluding debt sales) decreased from R642 million to R498 million for the year. Most of the recoveries related to balances that were written off prior to the implementation of IFRS 9 in March 2018. After the implementation, loan balances that are handed over, or are in debt review and that were previously written off, remain on book until they reach the point where there is no reasonable expectation of future recoveries. Recoveries on these balances currently reduce gross loans and advances and the associated provisions and do not form part of the bad debts recovered.

The table below reflects the trend in the credit loss ratio and loan book coverage ratio from 2020 to 2023.

%	2023	2022	2021	2020
Credit loss ratio	8.0	4.9	11.4	7.2
ECL coverage ratio	22.9	23.6	26.9	20.5
Forward-looking macroeconomic provision as a % of total ECL	4.0	17.6	18.6	4.8

Report from the Chief Financial Officer continued

The credit loss ratios reflect the factors discussed above for the 2023, 2022 and 2021 years. The credit loss ratio for 2020 is reflective of the economic conditions and granting criteria before the onset of the COVID-19 pandemic. The table illustrates the abnormality of the credit loss ratios during the 2021/2022 period and that the 2023 ratio has returned to pre-COVID-19 levels. The credit loss ratio for 2023 excluding the ECL on undrawn access facility limits was 7.7%.

The average 12-month forward-looking baseline macroeconomic indicators obtained from the Bureau for Economic Research (BER), that are currently utilised in the calculation of the forward-looking macroeconomic provision, indicate that the outlook is not as negative as it was a year ago. The decrease in the ECL coverage ratio on the loan book is in line with these expectations and the ratio remains well above pre-COVID-19 coverage ratios. Excluding the forward-looking macroeconomic provision, the ECL coverage ratio increased from 19.4% in February 2022 to 21.9% at the end of February 2023.

The coverage ratio trends by stage are analysed in the table below.

%	2023	2022	2021	2020
Stage 1	**7.2**	10.8	9.4	6.8
Stage 2	**26.2**	24.2	30.8	30.5
Stage 3	**63.0**	63.9	69.0	73.1
Total	**22.9**	23.6	26.9	20.5

The stage 1 coverage ratio decreased as the loans to which the 2022 forward-looking macroeconomic provision related migrated to stage 2 and stage 3 as expected. As at February 2022, a large proportion of the provision was included in stage 1 as these were the balances that would be most affected by the forward-looking macroeconomic information. The provision on balances that had already rolled into stage 2 and 3 was already held at higher coverage ratio levels and a smaller increase in the provision would be required should they roll into default. The coverage ratio remains above pre-COVID-19 levels due to the remaining risk that is reflected in the forward-looking macroeconomic forecast.

The stage 2 coverage ratio was also impacted by the migration of loans to which the 2022 forward-looking macroeconomic provision related but to a lesser extent. At the end of the 2020 and 2021 financial years, 1 month in arrears balances (which carry higher provision percentages than the up-to-date loans with significant increases in credit risk (SICR) and forward-looking SICR balances) comprised a greater proportion of the stage 2 balances, resulting in a higher coverage ratio. The coverage ratio on balances showing SICR and with a forward-looking SICR indicator increased to 22.6% (2022: 21.3%) and 24.0% (2022: 21.2%), respectively. These balances, although up-to-date, reflect the increase in financial strain on our clients and higher provision percentages are applied based on movements in behaviour scores.

The stage 3 coverage ratio shows a declining trend and is currently below pre-COVID-19 levels. The coverage ratio on the default book (more than 3 months in arrears, legal statuses and applied for debt review within the last 6 months book) at the end of February 2023 was 72.7% (2022: 73.6%). It was impacted by a change in the mix of the default book. Despite the increases in debt review balances they comprised 45% of the default book (2022: 52%), while handed over balances comprised 39% (2022: 40%). The remaining 16% of the default book (2022: 8%) was subject to collection action by the bank. These balances carry lower provision percentages than the debt review and handed over balances because payment arrangements are in place with the affected clients and their behaviour scores have not deteriorated to the point where handover or write-off takes place. Therefore, as this portion of the book increases, the overall coverage ratio decreases.

Gross loans and advances increased by 16% to R82.3 billion (2022: R71.2 billion). The provision for ECL increased by 12% to R18.8 billion (2022: R16.8 billion).

The retail gross loans and advances are analysed by stage and category below.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL			Stage 3 Lifetime ECL				
R'm	**Up-to-date**	**Up-to-date loans with SICR and applied for debt review >6 months**	**Forward-looking SICR[1]**	**Up to 1 month in arrears**	**2 and 3 months in arrears**	**Rescheduled from up-to-date (not yet rehabilitated)**	**Rescheduled from arrears (not yet rehabilitated)**	**More than 3 months in arrears, legal statuses and applied for debt review <6 months**	**Total**
Balance as at 28 February 2023									
Gross loans and advances	**50 320**	**9 803**	**1 951**	**1 764**	**2 202**	**1 917**	**1 915**	**12 425**	**82 297**
Provision for credit impairments (ECL)[2]	**(3 634)**	**(2 219)**	**(468)**	**(851)**	**(1 493)**	**(584)**	**(527)**	**(9 030)**	**(18 806)**
Net loans and advances	**46 686**	**7 584**	**1 483**	**913**	**709**	**1 333**	**1 388**	**3 395**	**63 491**
ECL coverage (%)	**7.2**	**22.6**	**24.0**	**48.2**	**67.8**	**30.5**	**27.5**	**72.7**	**22.9**
% of gross loan book	**62**	**12**	**2**	**2**	**3**	**2**	**2**	**15**	**100**
Balance as at 28 February 2022									
Gross loans and advances	44 591	8 327	3 059	1 372	1 744	1 175	1 634	9 312	71 214
Provision for credit impairments (ECL)[2]	(4 826)	(1 771)	(647)	(673)	(1 206)	(346)	(455)	(6 852)	(16 776)
Net loans and advances	39 765	6 556	2 412	699	538	829	1 179	2 460	54 438
ECL coverage (%)	10.8	21.3	21.2	49.1	69.2	29.4	27.8	73.6	23.6
% of gross loan book	63	12	4	2	2	2	2	13	100

(1) *Comprises loans where the forward-looking information indicates a SICR trigger.*

(2) *For agreements at a client level that contain both a drawn and an undrawn component, the combined ECL is recognised with the loan component. To the extent that the combined ECL exceeds the gross carrying amount, the excess is recognised as a provision in other liabilities.*

Report from the Chief Financial Officer continued

The composition of the gross loans and advances shifted towards stage 2 and stage 3 as illustrated in the table below.

	2023 R'm	2023 %	2022 R'm	2022 %
Stage 1	**50 320**	**61**	44 591	63
Stage 2	**13 518**	**16**	12 758	18
Stage 3	**18 459**	**23**	13 865	19
Total gross loan book	**82 297**	**100**	71 214	100

The growth in stage 1 gross loans and advances was driven by net loan sales of R52.9 billion. Balances moving from stage 1 to stage 3 amounted to R11.2 billion compared to R7.1 billion during 2022. This increase was largely due to the high level of clients going into debt review , specifically subsequent to August 2022. This trend was driven by current economic conditions as well as increased targeting of consumers by debt counsellors.

The total up-to-date loans and advances included in stage 2 was R11.8 billion (2022: R11.4 billion). These balances comprise the loans of clients that have shown a SICR and loans where forward-looking information results in a SICR trigger. Loan balances with forward-looking SICR decreased from R3.1 billion to R2.0 billion at the end of February 2023. Most of these balances moved to the up-to-date with SICR category as the forward-looking macroeconomic forecasts made in 2022 realised in the loan book during 2023.

The stage 3 loan book increased to R18.5 billion (2022: R13.9 billion). Loan balances in arrears for more than 3 months, handed over balances and balances where clients applied for debt review within the 6 previous months (the default book) increased by 33% to R12.4 billion (2022: R9.3 billion). Debt review and handed over balances increased to R5.6 billion (2022: R4.9 billion) and R4.9 billion (2022: R3.8 billion), respectively.

Business bank

Credit impairment charge

The net credit impairment charge on Business bank loans and advances increased by 18% to R208 million (2022: R176 million). The following table provides a breakdown of the net credit impairment charge.

R'm	2023	2022	2021
Bad debts written off	**192**	75	68
Movement in provision for credit impairments	**21**	104	400
Gross credit impairment charge	**213**	179	468
Bad debts recovered	**(5)**	(3)	(3)
Net credit impairment charge	**208**	176	465

The Business bank's bad debts written off increased from R75 million to R192 million. Written off balances were individually assessed by management to have reached the point where the present value of the future recovery was less than 5% of the balance immediately before write-off.

The business gross loans and advances are analysed by stage and category below.

	Stage 1 12-month ECL		Stage 2 Lifetime ECL						Stage 3 Lifetime ECL	
R'm	Up-to-date	Up to 1 month in arrears	Up-to-date loans SICR	Forward-looking SICR[1]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[2]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
Balance as at 28 February 2023										
Gross loans and advances	**13 043**	**134**	**413**	**265**	**90**	**346**	**99**	**—**	**1 128**	**15 518**
Provision for credit impairments (ECL)[3][4]	**(225)**	**(3)**	**(99)**	**(28)**	**(21)**	**(17)**	**(12)**	**—**	**(436)**	**(841)**
Net loans and advances	**12 818**	**131**	**314**	**237**	**69**	**329**	**87**	**—**	**692**	**14 677**
ECL coverage (%)[5]	**1.7**	**2.1**	**24.0**	**10.7**	**23.6**	**5.0**	**11.7**		**38.6**	**5.4**
% of gross loan book	**84**	**1**	**3**	**1**	**1**	**2**	**1**		**7**	**100**
Balance as at 28 February 2022										
Gross loans and advances	10 591	115	314	—	37	151	126	659	901	12 894
Provision for credit impairments (ECL)[3][4]	(196)	(1)	(69)	—	(15)	(16)	(9)	(113)	(364)	(783)
Net loans and advances	10 395	114	245	—	22	135	117	546	537	12 111
ECL coverage (%)[5]	1.8	1.1	22.0		41.3	10.4	7.4	17.1	40.4	6.1
% of gross loan book	82	1	3		—	1	1	5	7	100

(1) *A new methodology for incorporating forward-looking information in measuring the ECL was developed for the Business bank during the current year to align the methodology to that of the Retail bank. The impact of forward-looking macroeconomic information on the allowance for ECL is determined based on historical relationships between movements in the macroeconomic variables and default rates. The impact of the forward-looking information on the allowance for ECL was included in the ECL for up-to-date loans SICR in the prior year.*

(2) *In response to COVID-19, clients were offered moratoriums or rescheduling on loans that were up-to-date at the end of February 2020. These loans are no longer monitored separately and have migrated to other stages and by February 2023, the balance of these loans in stage 1 as a result of rehabilitation was R270 million; R411 million remained in stage 2 and R202 million was in stage 3 as a result of default. The ECL was determined by the existing ECL model. COVID-19-related rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling and are up-to-date with their amended contractual obligations.*

(3) *For agreements at a client level that contain both a drawn and an undrawn component, the combined ECL is recognised with the loan component. To the extent that the combined ECL exceeds the gross carrying amount, the excess is recognised as a provision within other liabilities.*

(4) *Business bank accepts collateral for secured funds advanced and this decreases the ECL.*

(5) *The ECL coverage ratio is calculated before rounding, as derived from the audited financial statements.*

Report from the Chief Financial Officer continued

Operating expenses

Operating expenditure of R11.9 billion (2022: R12.6 billion) was 5% lower than the comparative period. Excluding employee benefits, which decreased by 16% from R7.4 billion to R6.2 billion, operating expenses increased by 10% to R5.6 billion (2022: R5.1 billion). The group's cost-to-income ratio was 39% (2022: 47%).

Employee benefits decreased due to lower short-term incentives as a result of lower growth in headline earnings than in 2022 when short-term incentives were based on the higher headline earnings growth post the 2021 COVID-19 year. Long-term incentives were lower due to the 15% decrease in the share price and the once-off IFRS 2 charge of R700 million that was recognised in the prior financial year when the Izindaba Ezinhle Employee Share Scheme was undertaken. Although the expense decreased, the number of group employees increased by 693 to 15 451 (2022: 14 758).

Quality data, innovative solutions and the availability of the latest technology remains pivotal in our strategy to improve banking in South Africa. The investment in our future was therefore a primary driver behind IT-related expenses increasing by 47% to R1.9 billion (2022: R1.3 billion).

Expenses associated with making cash available to our clients decreased by R45 million as a result of our digitalisation journey and load shedding which lowered the demand for cash.

Other income

Other income recognised decreased to R79 million (2022: R290 million). The large decrease was attributable to the once-off insurance recoveries that we received from Sasria SOC Limited for losses incurred during the civil unrest that occurred in July 2021.

Tax

The group's tax expense grew by 3% to R2.5 billion from R2.4 billion. Tax attributable to the profits on the cell captive investments is already deducted from the net insurance income and funeral plan income line and therefore excluded from the tax expense line. As a result, the reported effective tax rate is 20% (2022: 22%). Together with tax paid in the cell captives, the effective tax rate for the group is 28% (2022: 29%).

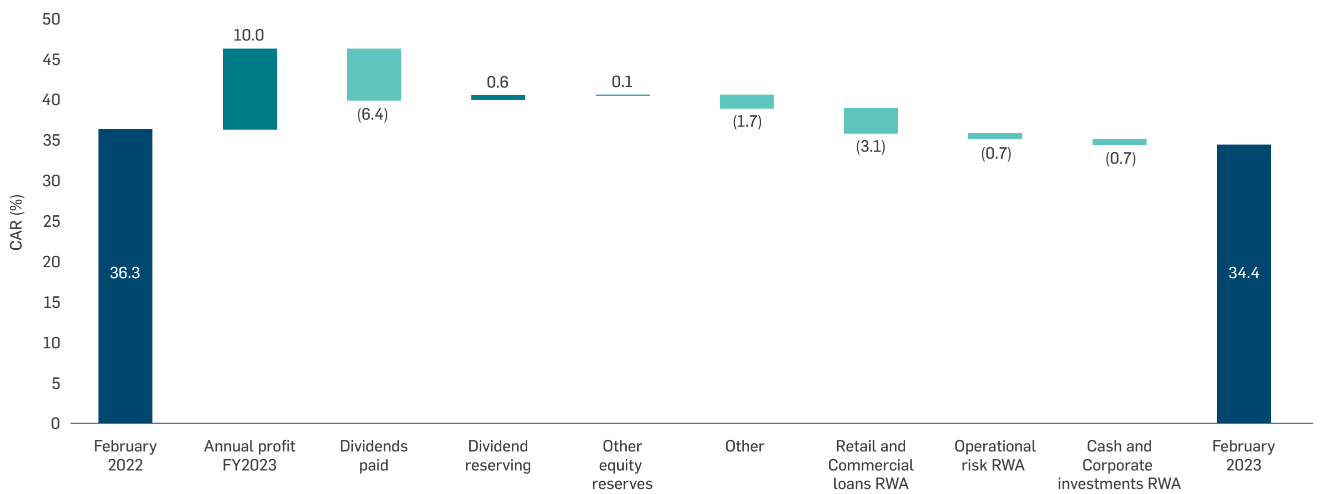
A reduction in the South African corporate tax rate that is effective from 1 March 2023 resulted in current income tax receivable balances being reflected at 28% and deferred tax balances at 27%. As a consequence, the deferred tax asset decreased by R91 million as at 28 February 2023. The expense in the income statement for the 2023 financial year was R47 million (2022: R44 million).

Capital and liquidity

The group's CET1 ratio of 34% (2022: 35%) and CAR ratio of 34% (2022: 36%) are well above the group's board-approved and regulatory requirements. As such, Capitec continues to be well capitalised and positioned for future growth opportunities.

Our approach to managing liquidity risk has remained the same. The management of liquidity takes preference over the optimisation of profits. Our internal liquidity ratios, developed prior to the inception of Basel ratios, are significantly more conservative than the Basel ratios. This conservative approach results in inherent compliance with the Basel 3 liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Our LCR is 2 191% (2022: 2 881%) and our NSFR is 215% (2022: 225%), while the regulatory requirement for both is 100%.

Year-to-date change in CAR (%)



Significant accounting matters

Forward-looking information macroeconomic overlay provision

In line with the fundamental principles of IFRS 9, the group holds provisions for potential future losses resulting from changes in the macroeconomic environment.

Given the current challenging macroeconomic conditions and the group's adjustments to its overall forward-looking information macroeconomic provision, this is being treated as a significant accounting matter.

The BER provided management with a set of forward-looking macroeconomic scenarios and associated probabilities covering a planning horizon of 5 years, in February 2023. The asset and liability committee (ALCO) reviewed and approved the BER's forward-looking macroeconomic outlook. The scenarios provided by the BER comprised a baseline scenario, a positive scenario and a negative scenario. In designing the narrative of the scenarios, their severity and the assignment of the probabilities attached to the scenarios, the BER applied expert judgement. The severity of the scenarios impacted the weightings for 2023. The scenarios are linked to probabilities of default (PDs) to derive a forward-looking ECL.

As at 28 February 2023, the group's overall forward-looking information macroeconomic provision was R0.8 billion (2022: R3.0 billion). As the negative forward-looking macroeconomic forecasts as at 28 February 2022 materialised during the current year, the ECL base model began accounting for the impact of economic stress factors seen in the loan book data. Forward-looking macroeconomic forecasts as at 28 February 2023 reflect a more positive outlook and as a result the required forward-looking information macroeconomic provision decreased by R2.1 billion. The remaining R0.8 billion was retained for risks that remain based on the latest economic forecasts obtained from the BER.

Refer to note 3.2.1 to the financial statements for more detailed disclosure on the forward-looking information that is incorporated in the impairment of the group's loans and advances.

Impairment assessments

The impairment assessment of goodwill arising from the acquisition of Mercantile and the impairment assessment of the investment in Avafin Holdings Limited (Avafin), previously known as Cream Finance Holdings Limited, continue to be significant accounting matters.

For the goodwill arising from the acquisition of Mercantile, the group's management team reviewed the assumptions and estimates used within the impairment assessment and concluded that the recoverable amount exceeded the carrying amount. Refer to note 3.1.3 to the financial statements for the assessment methodology applied.

For the investment in Avafin, the economic environment in which it operates was identified as a potential impairment indicator in terms of IAS 36 *Impairment of Assets*. Stress tests were performed on all key assumptions and the recoverable amount still exceeded the carrying amount. However, given the ongoing geopolitical tension in Eastern Europe, combined with the global economic uncertainty, management decided to retain the current impairment of R122 million. Refer to note 3.1.4 to the financial statements for the assessment methodology applied.

IFRS 17 *Insurance Contracts*

IFRS 17 replaces IFRS 4 and is effective from 1 January 2023. The new insurance standard establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held. The aim of the standard is to increase comparability and transparency of profitability across the entities where insurance contracts are issued and held.

For more information on our transition process, refer to note 2.21 to the financial statements.

Internal financial control responsibility

The group has an established internal control framework in place, which includes adequate and effective internal financial controls, to ensure that the group's financial statements are fairly presented, in all material respects, and that no facts have been omitted, or that any untrue statements are made that would result in the financial statements being false or misleading.

For our full CEO and CFO internal control responsibility statement, please refer to page 135.

Appreciation

I would like to thank all our stakeholders, but our clients in particular, for their continued loyalty and feedback during the financial year. We are committed to the delivery of affordable financial solutions to all in South Africa.

Grant Hardy
Chief financial officer

Stellenbosch
18 April 2023

how we create value

Our purpose informs our strategy

page 26

Our strategy drives value creation

page 32

Our **business model** unlocks and protects value for our stakeholders

page 36

Our **stakeholders'** objectives are the focus of our actions

page 38

Our purpose

To enable everyone to improve their financial lives and live better

Our core values

live **ceo**

Client first | Energy | Ownership

Our 4 fundamentals

Simplicity

Affordability

Accessibility

Personalised experience

Our strategic objectives

Client experience

Client quality

Digital

World-class data business

Business delivery

People

New capabilities

Our purpose

Is to improve the financial lives of our clients and live better

Why do we exist

We endeavour to deliver financial solutions that embody our founding fundamentals of simplicity, affordability, accessibility and a personalised experience in order to create sustainable value for all our stakeholders while also making a meaningful contribution to the prosperity of South Africa.

Our transparency and client-centric approach to everything we do enables us to develop financial solutions that deliver on our purpose.

The fact that we still add in excess of 100 000 new clients per month reflects the relevance of our client-focused approach.

Our CEO values drive our behaviour

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

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

- client first
- energy
- ownership.

Our relationships with our clients and colleagues are based on trust and ethics.

Our products

Our focus on technology and innovation has enabled us to develop a wide range of products that are true to our founding fundamentals, but more importantly, relevant in a rapidly changing environment.

Our vision is to build a platform that represents an ecosystem of financial services that can address all of our clients' financial needs.

Our purpose continued

Retail bank

Simplified banking that helps you live better.

Products

Credit

Clients can choose from personalised credit solutions that suit their needs, whether they need a loan now or revolving credit for later, a credit card for day-to-day activities or a home loan.

Save

Clients can open 4 free savings plans on our app. They can also name the respective plans to match their goals and fix them on the app to earn higher interest.

- **Transaction account:** serves as the client's main account and earns interest on a positive balance
- **Flexible savings:** clients can choose the amount, the term and frequency of their deposits
- **Fixed-term savings:** clients can choose single or multiple deposits
- **Tax-free savings account:** invest up to R36 000 a year and R500 000 in a lifetime and get tax-free returns.

Transact

Our GlobalOne account enables our clients to transact conveniently at anytime and anywhere. Clients can simply bank on our app, pay with their card or tap with their phone.

- Payments (realtime clearing or normal transfers)
- Scan to pay
- Virtual card payments
- Pay me
- Online shopping
- Internet banking
- Mobile banking app
- USSD mobile banking.

Invest with EasyEquities

Capitec clients can buy and sell shares straight from our app and save 20% on brokerage fees across all trades.

New solutions

Value-added services

Our existing value-added service offering which includes Send Cash payments and prepaid purchases (electricity, data and airtime) was expanded by the inclusion of national lottery ticket purchases, bill payments and vouchers.

Bill payments enable our clients to instantly make payments to their respective bill issuers, making payments even more convenient and affordable.

Clients can now purchase and send vouchers to friends and family anywhere in South Africa. We offer flexi vouchers which can be used at any participating retailer or retailer-specific vouchers. We currently have 19 participating retails and expect more than 10 to join within the first 6 months of the 2024 financial year.

Digital payment solutions

Apple Pay, Samsung Pay and Google Pay were introduced during the current financial year and attract zero transaction fees for local card purchase

Capitec Pay was also launched during the year and is South Africa's first bank-endorsed application programming interface solution in the market and provides more secure environment as it protects clients from screen scrapping.

Capitec Connect

Our mobile solution was launched with the purpose of disrupting the South African telecommunications industry. Our offer provides our clients with access to an affordable mobile solution that puts our clients first as our prepaid airtime and data does not expire.

The cost per unit of data, voice or SMS remains the same – whether a client buys a little or a lot. Our flat rates mean no out-of-bundle rates and therefore our clients don't need to convert airtime to use it as data, voice and SMS.

Business bank

Grow your business your way with simple and affordable solutions. We provide a personalised service, an easy-to-manage digital platform and affordable credit.

Our digital solution is easy to use

Clients can get simplified financial solutions for their businesses, including payments, investments, credit and insurance – all for a low R65 monthly fee.

Our monthly fee includes the following:

- A business bank account
- Access to a relationship banker
- Free access to our banking app and internet banking
- Free interaccount transfers
- Free monthly email statements
- Free notification (in-app and internet banking).

Our solution enables our clients to manage their money anywhere and at any time. Clients can use our banking app and internet banking as well as have affordable access to cash when they need it with over 3 000 Capitec ATMs.

Our solutions include all of the following business needs:

- Franchising
- Mini-card machine
- Forex and treasury
- Payment solutions
- Rental finance.

Franchising

Our expert team has years of experience and practical know-how within the franchising industry, ensuring that we are adequately equipped to assist franchisors, franchisees and other franchise service providers.

Leveraging our deep understanding of entrepreneurial development, our team is able to provide the following:

- A centralised approach and support structure
- Unique financial solutions
- Quicker credit turnaround time
- A cross-industry focus
- Access to expert networks
- Informed decision-making.

Mini-card machine

We offer South Africa's most affordable card machine with a low commission of 1.75% including value added tax (VAT) and no monthly fees or agreements.

Additional benefits include:

- Daily payout
- No hidden fees
- All day battery life
- Smartphone paring capability.

Forex and treasury

As an authorised foreign exchange dealer, we offer a range of services for both importers and exporters active in cross-border trade. We facilitate the following transactions:

- Receiving foreign currency
- Spot market transactions
- Foreign exchange contracts
- Derivative trading
- Purchasing of foreign cash.

Payment solutions

We provide leading, cutting-edge, cost-effective, time-saving and secure systems for processing and managing electronic payments and collections through the South African banking system. We offer a range of products to suit all businesses, from small companies to large corporate clients. Regardless of the size of your business or the volume of your transactions, we have a solution to suit your specific needs.

Rental finance

Our solution enables our clients to reserve their working capital or existing lines of credit, tailor their expenses to fit their unique needs and maintain their competitive advantage by providing access to the latest technologies.

Our purpose continued

Insure

Our funeral plan and credit insurance cover provides more cover for less and protects our clients from death and other unexpected life events.

Capitec funeral plan

Our funeral plan, underwritten by Centriq Life Insurance Company Limited, is personalised according to our clients' needs. Clients can get up to R100 000 cover for themselves and cover for up to 21 family members.

Clients can select a level of cover or premium, depending on their requirements. Our clients can also choose a premium that fits their budget and we calculate the cover accordingly – putting the client in control of their own financial decisions.

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

We understand that our clients want a plan that pays out quickly following a death to assist with funeral and related expenses. We also understand that clients want to talk through their options and benefits when buying a funeral plan. Since inception, 83% of all Capitec funeral plan policies were issued in branches.

Our funeral plan offering is as follows:

- New-born premium cover waiver for 6 months
- Double accidental death benefit
- Death premium waiver for 6 months
- Voluntary policy pause for up to 6 months
- Burial repatriation benefit.

Credit life insurance for Retail bank clients

Credit insurance covers our clients in the event of permanent or temporary disability, retrenchment, unemployment, the inability to earn an income (other than disability) or death. It's compulsory for clients to have credit life insurance for credit terms of 7 months and longer.

Our credit life insurance offering is underwritten by Guardrisk Life Limited. Although we offer this insurance, clients can provide us with an alternative policy of their choice provided that it meets our minimum requirements that are:

- The alternative policy must be ceded to Capitec and the interest of Capitec must be noted by the insurer of the alternative policy
- The alternative policy must have at least the same benefits as referred to in Regulation 3 of the Credit Life Insurance Regulations of 2017
- The alternative policy must be in force.

Our insurance offering is unique as the premium is charged monthly at a rand amount per R1 000 of the outstanding loan balance. Therefore, our monthly premium is charged on a diminishing loan balance if the client remains up-to-date with his/her instalments.

Our offering is also immediately available, no paperwork is required when applying, the claims process is simple and the policy is available to clients up to the age of 65.

Live Better

Real rewards when you Bank Better, real cash back when you Spend Better and real simple ways to Save Better. All for free!

Live Better savings account

Is an additional savings account that brings with it cash backs, an automated savings tool and a beneficial interest rate at no additional cost to our clients. The aim is to build a culture of saving, while bring daily value to our clients.

Bank Better

Clients that achieve their Bank Better goals can get 0.5% cash back on their debit and virtual card spend. Clients that opt to use their credit cards qualify for an additional 1%. Cash backs are paid into the Live Better savings account on the 10th of every month (Live Better day).

The criteria for Bank Better goals are:

- 1 product:
  - A client must have at least 1 credit product (term loan, access facility or credit card), or a funeral plan, or a fixed-term savings plan with a balance of R10 000 or more
  - None of these credit products may be in arrears
- 3 recurring payments:
  - Includes all recurring/future-dated payments and debit orders
  - Includes card-linked recurring subscriptions (e.g., Netflix and Spotify)
  - All debit orders or recurring payments must successfully be collected from a client's account monthly
  - A client may not dispute or return a debit order
- Do any 5 (or more) of any of the following transactions:
  - Buy prepaid mobile
  - Buy electricity
  - Scan to pay
  - Send cash
  - Pay a beneficiary.

Save Better

The 2 automatic savings tools come standard with the Live Better savings account – Round-up and Interest Sweep.

Round-up

Is an automatic savings tool that puts small change to work. Clients can spend as they normally would and round-up each purchase to the value of their choice and automatically transfer the difference to their Live Better savings account once the transaction has cleared.

Interest Sweep

Is a smart tool that does the saving for clients by transferring any interest earned on the main transactional savings account into the Live Better savings account at the end of every month, earning higher interest.

Spend Better

Spend at one of our selected Live Better partners and get cash back or a discount on your purchase.

Partner cash backs

Participating clients qualify for partner cash backs when the transact at our Live Better partners which includes Shell, Dis-Chem and Baby City, Bolt and Cashbuild.

On Live Better day, clients qualify for a 10% cash back when they shop at Exclusive Books and double the normal cash back when they swipe their registered Shell V+ rewards card for fuel purchases.

Discount partners

Clients also qualify for discount on their spend when they transact at any of the following partners: Educate24, GetSmarter and Travelstart.

Our Live Better rewards programme was voted as the best programme in the financial services section at the 2022 South African Loyalty Rewards.

Our strategy

The medium- to long-term strategy of the organisation as determined by our group executive management committee (EXCO) drives value creation. Our focus is enhanced by clear, concise objectives that allow us to unlock value for our clients and other stakeholders.

The organisation's objectives are cascaded to goals for individuals that are measured through a series of integrated key performance indicators (KPIs) and incorporated in our remuneration strategy. As a result, everyone in the organisation is aligned and efforts are focused on achieving strategic objectives.

Retail bank

Acquire and retain quality clients

The year of our people

- Balance well-being and performance
- Unlock diversity, equity and inclusion
- Invest in the development and growth of our people
- Live the leadership principles
- Effective onboarding

Trust – protect and grow our foundation

- Prioritise resilience, supportability and scalability
- Improve safety measures on our client channels
- Design products with security in mind
- Enhance client support business processes
- Improve client engagement on all channels
- Commit to do better at every opportunity

Excellent client service experience

- Transparency + Simplicity = Control
- Improve cash distribution and accessibility
- Introduce conversational banking
- Enable clients to utilise self-service capabilities

Credit excellence

- Ensure credit book stability
- Improve client credit health
- Credit replatforming
- Digitisation of credit granting and treatment mechanisms
- Self-employed/multiple income lending
- Credit card growth enhancement
- Purpose lending

Bank Better – client quality

- Conversions and cross-selling
- Next best action (automated decisions delivered to all channels)
- Live Better
- Improve client behaviour: cash to electronic
- Enhance youth strategy

Create client value beyond banking

- Life insurance
- Capitec Connect and airtime advances
- Value-added services (Lotto, vouchers and bill payments)

Business bank

Launch and scale Capitec Business

Rebrand to Capitec Business

- Launch Capitec Business
  - GlobalBiz product and new pricing on transactional accounts
  - Remote onboarding capability for all clients
  - Enhance assisted onboarding process for complex client structures
  - New online banking and mobile app
  - Mature the relationship suite
- Enable product take-up on digital channels
- Drive client adoption of new digital self-service capabilities
- Ensure effective change management across all new systems and processes
- Grow our client base to 100 000 SMEs
- Enter the emerging business market

Stabilise our systems

- Embed and scale rebranded solutions
- Deliver system efficiencies and achieve system stability, improving our ability to innovate
- Drive employee adoption of the client relationship management system, loan management system and new branch channel
- Implement a new rental finance system
- Launch the forex widget on the Capitec app

Simplify processes

- Enhance process efficiencies and controls across the business
- Maximise process capabilities by driving client self-service
- Monitor and improve service levels through the implementation of quality assurance and complaint management processes

Slicker credit experience

- Automate 85% of applications
- Improve scoring capabilities and offers
- Cut turnaround times by 25% and improve the client experience across the credit life cycle
- Scale collections and recoveries
- Implement credit campaign strategies
- Optimise the employee home loan experience
- Launch unsecured credit for emerging businesses

Champion a risk management mindset

- Proactively identify and manage risk through the risk control self-assessment (RCSA) process
- Ensure all high-risk issues identified by internal audit are addressed effectively
- Utilise technology to detect and reduce fraud
- Drive employee campaigns to embed a risk management culture

Ownership of our data discipline

- Ensure that we collect and maintain quality client data
- Take ownership of data to manage and grow our business
- Adopt self-service data and analytics capabilities
- Collect and utilise data to proactively service clients and improve the client experience

Enable our people to thrive

- Co-create action plans to ensure we focus on:
  - hearing the voices of our employees
  - rewarding and recognising employees
  - employee well-being
  - attracting and retaining top talent
  - creating greater goal clarity with quarterly performance reviews
  - creating an environment where our employees can thrive

Our strategy continued

Shared services

Create the Capitec ecosystem

Help our people thrive

- Build a future-fit Capitec talent ecosystem
- Strive to improve our leadership's diversity and reach more learners to develop world-class competencies with our functional capabilities
- Develop a diverse pipeline of talent that can successfully lead Capitec in a fast-growing and changing environment
- Build an enabling environment that is diverse, inclusive and safe, where our people can continuously learn, experiment and thrive
- Personalise our client experience to be human-centred and empower clients through financial education, the Capitec Foundation and community upliftment opportunities to Bank Better, Save Better and Live Better

Build trust in the Capitec brand

- Simplify banking so that our people can live better
- Provide a positive client and stakeholder experience by enhancing product functionality with world-class risk controls, effectively combating financial crime and protecting the business from cyberattacks and other threats
- Continue to create capacity and energy by leveraging economies of scale to gain efficiencies and throughput that will help us deliver everyday executional excellence and enable future growth
- Maintain platform stability so that Retail bank can focus on their 5-star client strategy and Business bank can scale to become an industry leader unhindered
- Improve the predictability, efficiency and value of business delivery by applying proactive planning principles

Payments and digital commerce at the core of our business

- Ensure that our clients always receive the best value offering on all Capitec products, amid a fast-changing environment where immediate gratification is non-negotiable
- Continue to support our clients' and merchants' drive to adopt QR payments using Pay me and Scan to pay, and further reduce online shopping friction and fraud through Capitec Pay

Embrace the future of technology and data

- Improve the speed of product team delivery by enabling self-utilisation of automated services
- Always know how our systems perform so that we can react to optimisation opportunities quickly and effectively
- Exploit machine learning capabilities, automation and optimisation opportunities across the bank to increase efficiency, throughput and accelerated decision-making
- Complete the migration to our web service-managed data environment
- React to risk and opportunity insights timeously and effectively with a centralised, end-to-end view of our client and business

Our business model

Guided by our purpose and fundamentals, we use our resources and expertise to create sustainable, long-term value for all our stakeholders.

Our resources	**Financial capital** is derived from retained earnings, shareholder funds and deposits to ensure that we remain well capitalised.	**Social and relationship capital** encompasses our relationships with clients, employees and other stakeholders including shareholders, regulators as well as the communities in which we operate.	**Human capital** comes from people's competencies, capabilities and experience and their ability to motivate and innovate. We employ people for their potential and their fit with our culture and values. They provide us with the attitude and skills to achieve our strategic objectives. We create employment in local communities, remunerate fairly and are committed to providing equal opportunities.	**Intellectual capital** entails Capitec-specific knowledge. With extensive data collection and analysis capabilities, we use artificial intelligence to enhance innovative thinking in line with our core fundamentals. We continuously offer new ways of banking such as virtual card features.	**Natural capital** includes the renewable and non-renewable environmental resources which are impacted by our operations and business activities.	**Manufactured capital** constitutes infrastructure such as leased buildings, data centres, ATMs, IT systems and remote banking solutions. Our products are supported on a single system with appropriate disaster recovery plans and security.
Our desired outcomes	**Investors enjoy the benefits of sustainable growth** and financial returns. Their confidence in us is affirmed by rating agencies and by the fact that key management holds shares in Capitec.	**Society is served by our offering of affordable banking services** and our investments to develop and empower people through consumer financial education and employment. **Regulators and government** can rely on us to maintain healthy CARs, be a responsible lender and comply with all governmental and regulatory requirements.	**Employees are valued, recognised and rewarded** for their unique potential and talent as they maintain the client relationships that we value.	**The clients' banking experience is transformed** and we elicit feedback that enables us to review our products and services to differentiate Capitec.	**Climate change** is everyone's responsibility and we conduct our business with a conscious effort to minimise harm to the environment.	
The risks we face	• Model risk • Losing focus • Diminishing client service • Funding and capital risk	• Third-party risk • Regulatory change • Fake news	• Internal/external fraud • Conduct risk	• Cyber risk • Data theft • Data optimisation • Disruptive technologies • Reputational risk • People risk • Strategic execution risk	• Climate change	• Business continuity • Scalability of systems • Operational risk • IT risk
The outputs we created	**26%** (2022: 26%) ROE **33 760 cents** (2022: 30 888 cents) NAV per ordinary share **34.4%** (2022: 36.3%) CAR	**20.1 million** (2022: 18.1 million) active clients **5.1 million** (2022: 4.6 million) quality clients	**15 451** (2022: 14 758) employees	**11.4 million** (2022: 10.1 million) digital clients	**14%** decrease in carbon footprint intensity per employee compared to 2022	**860** (2022: 853) branches **7 898** (2022: 7 178) ATMs, DNRs and CNRs
How we shared the value	Dividends paid **R6.2 billion** (2022: R3.2 billion) Interest paid to wholesale funders **R354 million** (2022: R454 million)	Corporate social investment (CSI) **R43 million** (2022: R40 million) Income and other taxes **R3.5 billion** (2022: R4.2 billion)	Employee remuneration and benefits (excluding unemployment insurance fund contributions and skills development levies) **R6.1 billion** (2022: R7.4 billion)	Interest paid to clients **R6.6 billion** (2022: R4.4 billion)		Value retained for growth **R4.5 billion** (2022: R5.6 billion) Supply of goods and services **R8.8 billion** (2022: R7.0 billion)

Our stakeholders

Sustainable value creation is fostered by our proactive approach towards interacting with our stakeholders. Our approach ensures that our response to material stakeholder concerns is appropriate and timely.

Responsibility for our relationships with stakeholders resides with the group EXCO and the board's SESCO. The board understands stakeholders' requirements and considers their legitimate needs and interests in the performance of its duties.

Clients

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Access to innovative yet simplistic banking solutions • Development and inclusivity for SMEs • Leading client service experience • Transparent client-centric pricing • Value-added services (non-banking) • Education to improve financial health	• Advertising • Client surveys • Market and industry research • Digital channels (banking app and website) • Face-to-face interactions (branch network) and call centres • Relationship managers

Our strategy: | | |

Our employees

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Healthy working environment • Inclusive culture and diversity • Job security, fair remuneration and continuous development • Strong, inspired and decisive leadership • Industry-leading trends and strategic implementation • Effective performance management, recognition and training • Opportunities to make an impact	• Internal communication • Information sessions (monthly town halls) • Training and development • Website and intranet • Performance reviews • Employee wellness platform

Our strategy: |

Government and regulators

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Commitment towards economic development • Transformation, i.e. broad-based black economic empowerment (B-BBEE) • Regulatory compliance • Responsible taxpayer in South Africa • Active participation in regulatory workshops • Regulatory announcements as required • Public-private partnerships	• Interviews and meetings • Reports and presentations • Conferences and round-table discussions • Website, media and the JSE Stock Exchange News Service (SENS) • Via electronic correspondence (email, Microsoft teams meetings and telephonic discussions)

Our strategy:

Society (suppliers, communities and civil society)

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Access to expert financial advice, products and solutions that help create positive impacts for society • Embracing transformation through delivery in line with B-BBEE legislation • Participate and play an active role in contributing to society and communities using available resources • Commitment to climate change • Increased job creation • Confidence in business continuity and opportunity • CSI opportunities • Education and skills development	• Service level agreements • Relationships with applicable business units • Meeting and servicing deliverables • Sponsorships • Social responsibility investments • Website and advertising • Webinars and meetings – *ad hoc* engagement • Collaborations • Capitec Foundation and volunteers

Our strategy: |

Investors and analysts

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Strong and experienced management • Sustainable growth and financial returns • Sound balance sheet to protect against any downside risk • Transparent reporting and disclosure • Clear and concise strategic objectives • Sound ESG practices	• Integrated annual reporting • Investor presentations • Roadshows, shareholder and analyst meetings • Website, media and SENS announcements

Our strategy: | |

03

corporate governance,

environmental and social responsibility

Capitec is a constituent company in the FTSE4Good Index Series.

The FTSE4Good Index Series is designed to identify companies that demonstrate strong environmental, social and corporate governance practices measured against globally recognised standards.

Our governance structure

We achieved the 4 outcomes:

Ethical culture
Good performance
Effective control
Legitimacy

Group structure

Capitec Bank Holdings Limited
1999/025903/06
Registered bank-controlling company incorporated in the Republic of South Africa and listed on the JSE.

100%
Capitec Properties Proprietary Limited
1998/007658/07
Property holding company incorporated in the Republic of South Africa

100%
Capitec Ins Proprietary Limited
1984/010303/07
Investment holding company incorporated in the Republic of South Africa

100%
Capitec Bank Limited
1980/003695/06
Bank incorporated in the Republic of South Africa

- **Retail bank**
- **Business bank**

100%
Capitec Rental Finance Proprietary Limited
(previously Mercantile Rental Finance Proprietary Limited)
2011/001582/07
Rental finance vehicle company incorporated in the Republic of South Africa

17.5%*
Imvelo Ventures Proprietary Limited
2017/207086/07
Supplier development vehicle company incorporated in the Republic of South Africa

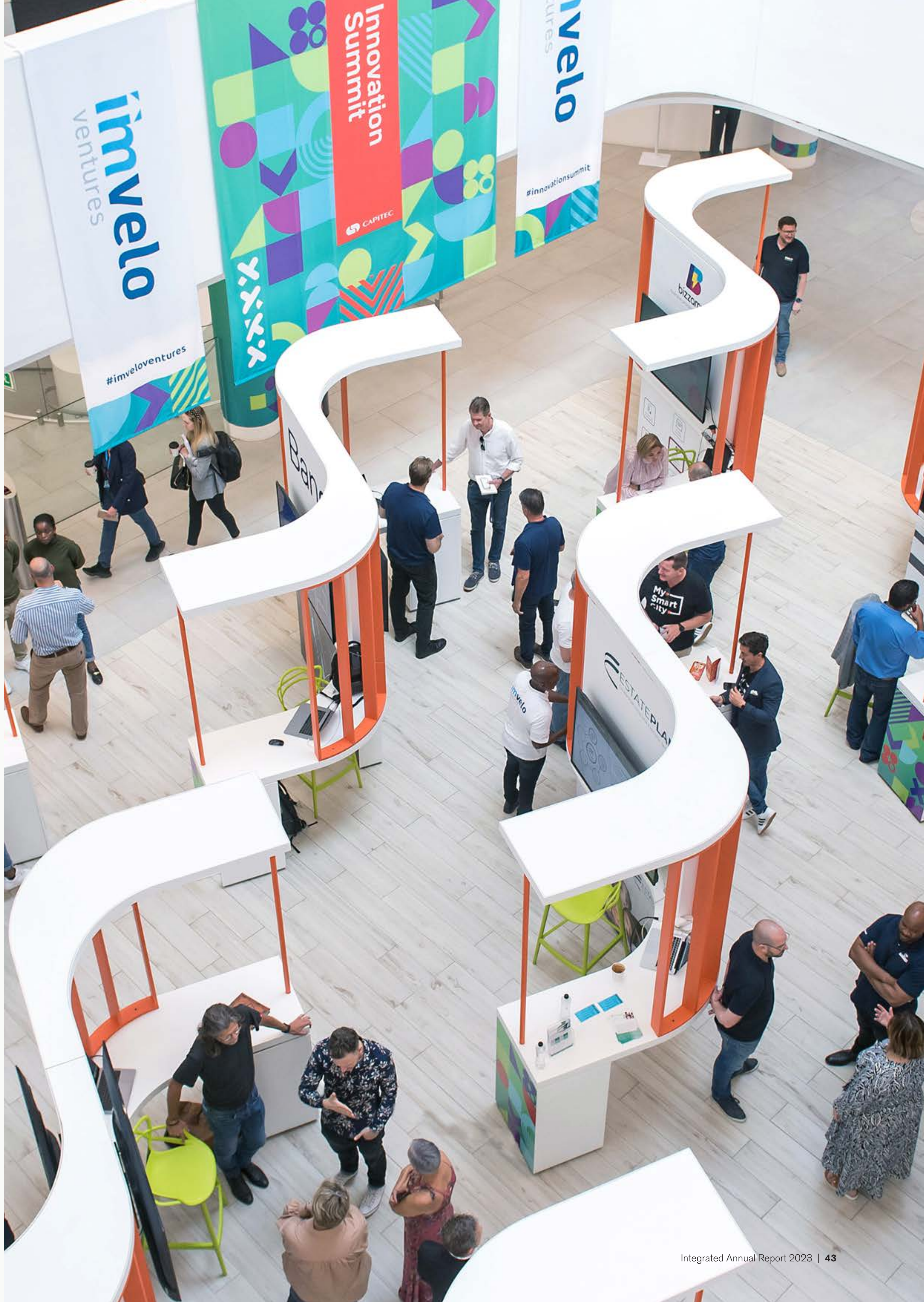
* *Capitec Bank Group Employee Empowerment Trust has an indirect holding of 31.5% in the ordinary shares of Imvelo Ventures Proprietary Limited.*

40.86%
Avafin Holdings Limited
(previously Cream Finance Holdings Limited)
HE335345
International online consumer lending company incorporated in Cyprus

33.33%
Praelexis Proprietary Limited
2012/149960/07
Machine learning company incorporated in the Republic of South Africa

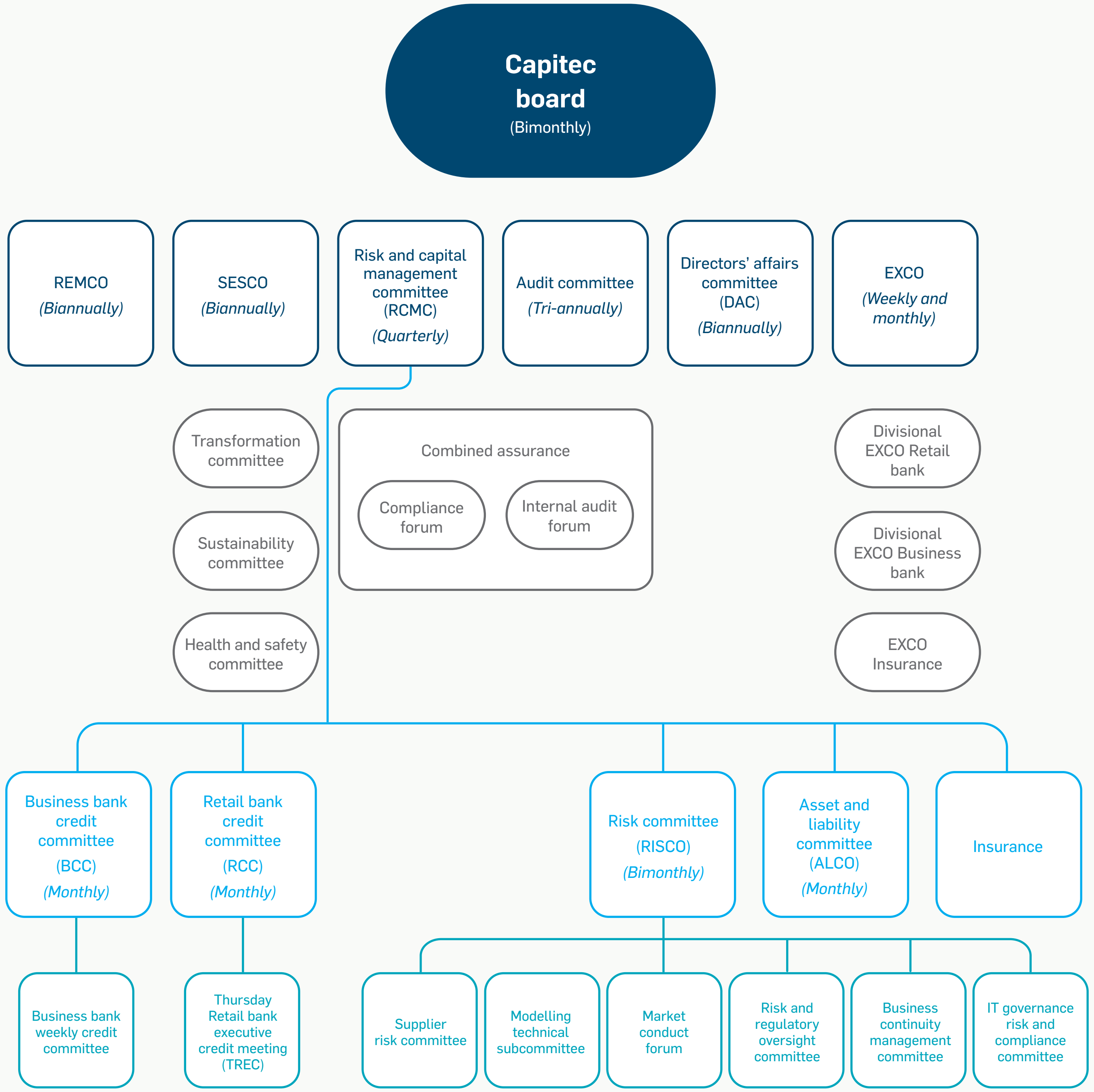
100%
Capitec Insurance Holdings Proprietary Limited
2021/926983/07
Investment holding company incorporated in the Republic of South Africa

100%
Capitec Life Limited
2021/924456/09
Licensed life insurer incorporated in the Republic of South Africa



Corporate governance

Our board sanctions the strategic direction of the company and oversees the implementation of the approved strategy and fulfilment of the organisation's purpose. We demand a high standard of governance, ethics and integrity in our business practices and in dealing with stakeholders.



Corporate governance continued

01 The directors of Capitec confirm that Capitec has complied with its memorandum of incorporation and the Companies Act.

02 We applied the King IV™ principles, explained our arrangements on our website and have made the related disclosures in this report. The online register in the investor relations centre on **www.capitecbank.co.za** contains a summary and references.

03 Our risk management approach and arrangements are set out in the risk management report from page 77.

Maintaining an ethical culture

We do business responsibly and ethically, and treat our clients fairly. Ethical banking involves being conscious of how our banking practices affect society and the environment.

Our working environment demands high ethical standards and our rules apply equally to all, regardless of position. Ethical practices pervade our business dealings and our interactions with stakeholders. Our leadership team is committed to the continuous enhancement and maintenance of an ethical culture.

Our ethics framework, supported by a range of policies that guide employees on ethical conduct, sets ethical standards to promote consistency in behaviour across all levels of employment. These policies are available on the company's intranet.

Employees are encouraged to live the Capitec Way behaviours: to put the client first, act with energy and take ownership. Ethical conduct is driven by daily behaviour and manifests in our individual and collective actions and decisions. This is done by challenging upwards and downwards to ensure robust decision-making and by reporting suspicious behaviour to management. Employees can also use Tip-offs Anonymous – the contact details are on the company's intranet.

The SESCO monitors compliance with ethical practices and the implementation of the ethics programme. No material ethical breaches were reported this year. The committee's report can be found on page 59.

Measuring good performance

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

Our performance track record supports this; we have been creating value for our stakeholders since Capitec was established in 2001.

Ensuring effective control

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

Our ability to identify the correct data through the implementation of risk data aggregation and risk reporting (RDARR), and report accordingly to the respective board committees, provides the board with the comfort that they have oversight of data they can trust.

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

Maintaining legitimacy

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

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

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

The DAC is tasked with monitoring corporate governance. The key focus for the past financial year was ongoing refinement of the group corporate governance framework and processes and continued focus on board effectiveness. The DAC has confirmed it is satisfied that the governance structure continues to support adequate and effective processes that are consistent with the nature, complexity and risk inherent in Capitec's business. There were no material breaches during the year.

Responsibility for overall stakeholder engagement resides with the group EXCO which relies on different functions to engage with specific stakeholders. Our stakeholder group remains constant, but the topics of engagement change every year based on our operating environment and client offering.

Tax policy

We are fully committed to complying with South African tax laws and regulations. The CFO, an executive director of the board, is accountable for tax accuracy, completeness and transparency. Our tax policy is based on:

- being a responsible corporate citizen by complying with tax legislation, and acting with integrity when engaging with tax authorities
- being transparent about taxes paid
- managing tax risks within risk appetite and in the context of our enterprise risk management (ERM) framework
- ensuring the integrity of all reported tax data.

Our board

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

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

- act in good faith towards the company
- avoid conflict between their personal interests and the interests of the company
- in the case of the bank, to place the interest of Capitec Bank and its depositors above all other interests.

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

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

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

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

How the board functions

Through appropriate corporate governance, an acceptable risk profile is established within which efficiency and profitability can be maximised.

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

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

Corporate governance continued

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

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

Board composition and diversity

We support the principle of diversity to enhance the board's perspective. The composition of the board is reviewed continuously by the DAC to facilitate an appropriately diverse and effective board, including a relevant range of expertise, experience, industry knowledge, age, gender, race and culture. While the target for independence on the board is at least 50% of the board, the majority of the board comprises independent non-executive directors. A majority independence enhances independent decision-making. It minimises the potential for conflict of interest to arise and ensures that the best interests of stakeholders are considered. The DAC set the following targets for gender and race diversity in accordance with the board policy on the promotion of broader diversity and the enhancement of broader diversity at board level will continue.

	Actual %	Target %
Race diversity	31	40
Gender diversity	23	35

Our board is comfortable that the collective expertise and diversity in culture and experience of the board is appropriate to oversee the implementation of the approved strategy and to facilitate long-term value for stakeholders.

Directors are appointed according to a policy that prescribes a transparent process. The DAC, under leadership of the chairman of the board, presides over board appointments. When specific skills are required, candidates are identified and recommended to the full board for endorsement. In terms of the approved current board appointment policy, the candidate must have appropriate time available to prepare for meetings. If the individual is in full-time employment, then he/she may sit on a maximum of 2 listed company boards, in addition to Capitec's, on condition that he/she will be able to spend the required time to prepare for Capitec board meetings. With the board's sanction, and subject to the Prudential Authority (PA) not objecting to the appointment, the individual is approached, and subject to passing fit and proper assessments, is formally appointed. Shareholders have the opportunity at the AGM, following the appointment of a new director, to endorse or veto the appointment. The board appointment policy is available on the company's website at:
www.capitecbank.co.za/investor-relations.

Newly appointed board members are formally inducted through a programme comprising reading, discussions with the various divisional heads and exposure to bank operations, such as visits to call centres and branches. *Ad hoc* training is presented in-house from time to time. Presentations are aimed at enhancing directors' insights into developments at the bank and legislation and regulations that affect the group. New directors are required to attend the banking board leadership programme, which is presented by the Gordon Institute of Business Science biennially.

The board is satisfied that its composition reflects an appropriate mix of independence, knowledge, skills, experience, diversity and culture, and that the board and its respective committees function effectively.

The board nevertheless continuously reflects on its composition to ensure it has the required qualities to facilitate appropriate supervision.

The skills matrix below summarises the qualifications and expertise of our directors.

Director	Qualifications	Independent/ Non-independent/ Executive	Board tenure (years)	Finance	Risk manage-ment	Banking industry	Insurance industry	Tech-nology	ESG expertise	Corporate memory	Mobile	Credit	Health and safety
SL Botha	BEcon (Hons)	Independent	3.8	○	○	○	○		SG		○		
SA du Plessis	BCom (Mathematics), PhD (Economics), AMP	Independent	2.5	○ ○	○ ○			○ ○	EG		○		
GM Fourie	BCom (Hons), MBA	Executive	9.5		*	*	*	*	G	*	*	*	*
CH Fernandez	BCom, BCompt (Hons), CA(SA)	Independent	2.5	* ○	○ ○	○	○ ○	○ ○	G	○	○	○	○
GR Hardy	BCom (Hons), CA(SA)	Executive	<1	*	*	*	*		G			*	*
MS du Pré le Roux	BCom LLB, DCom (hc)	Non-independent	23	○	○ ○	○ ○	○ ○		G	* ○		○ ○	○
V Mahlangu	BSc (Chemical Engineering), MBA	Independent	2.5	* ○	* ○				G				
TE Mashilwane	BCom (Hons), CA(SA), RA, MBA	Independent	3	* ○	* ○				SG				
NS Mashiya[(1)]	MCom (Economics)	Executive	6.8		*				G			*	*
DP Meintjes	BPI (Hons) (Industrial Psychology), AMP	Independent	4.3		○ ○				ESG			○	○ ○
PJ Mouton	BCom (Mathematics)	Non-independent	15.5	*	*	*	*		G	*		*	
CA Otto	BCom LLB	Non-independent	23	○	○	○	○		G	○		○	
JP Verster	BCompt (Hons), CA(SA), CFA, CAIA	Independent	8	○ ○	○ ○	○	○ ○		G	○	* ○	○ ○	

(1) Mr NS Mashiya resigned effective 31 March 2023.
E = Environmental
S = Social
G = Governance

Read more about the diversity in skills and experience of our board members in the profiles from page 55.

Board performance and independence evaluations

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

The results of the assessment for the 2023 financial year indicate that the board composition is appropriate and the board has an appropriate balance of power and authority and that it and its committees function well. The chairmen of the board and respective committees are efficient, ensuring effective meetings and appropriate oversight of relevant matters. Raising matters and debating different viewpoints are encouraged on the board. The tone at top executive management level is appropriate and aligned with the board's expectations. There is a healthy and transparent relationship between the board and the CEO with a formal delegation framework that effectively separates duties and responsibilities. The board is satisfied that the evaluation contributes to continuous improvement of the board's performance and effectiveness. The evaluation confirmed that the chairman of the board fulfills her role as chairman of the board appropriately and that her leadership of the board is valued.

The independence of non-executive directors and factors that may impair their independence are evaluated annually against a list of specified characteristics defining independence. The board is satisfied that the independence of Santie Botha, Emma Mashilwane, Danie Meintjes, Jean Pierre Verster, Stan du Plessis, Cora Fernandez and Vusi Mahlangu is unfettered and there is no relationship, association or interest that affects their independence or that may unduly influence or cause bias in their decision-making.

The average tenure of the 7 independent non-executive directors is 3.8 years, and for the 3 non-executive directors it is 20.5 years.

Criteria that prevent non-executive directors from being considered independent:

- A direct or indirect shareholding in excess of 5% in Capitec or an executive officer of such a shareholder
- A principal of a material professional advisor or a material consultant to Capitec or Capitec Bank within

the past 3 years

Corporate governance continued

- A significant or ongoing professional advisor to, or an internal auditor of the company within the past 3 years
- A significant provider of equity or other sources of capital, or a material provider of funding to a company in the group
- Remuneration, other than standard directors' fees, linked to, or contingent on the performance of the company, such as a share-based incentive scheme
- A member of the immediate family of an individual who falls within any of the aforementioned categories of persons
- An executive director, the CEO or an executive officer of the company at any time during the preceding 3 years
- Service as an independent non-executive director of the company for a period more than 9 years
- Having been the designated external auditor, or a key member of the audit team, directly or indirectly responsible for performing the statutory audit for the company at any time during the preceding 3 financial years.

When considering the independence of a director, the board considers whether there is an interest, association or relationship which is likely, when judged from the perspective of a reasonable and informed third party, to influence unduly or cause bias in decision-making in the best interests of the company.

The Chairman

We have an independent chairman and a lead independent director. The lead independent director's role is determined by the board charter. According to the charter, the lead independent director, among others, provides leadership in situations where the chairman is deemed to have conflicting interests and he leads the performance appraisal of the chairman. A board-approved policy specifies how we ensure a balance of power and authority at board level. No one individual has unfettered decision-making powers. Each director has 1 vote and a majority of votes must be cast in favour of a resolution to approve same. The chairman may not cast a deciding vote in addition to any deliberative vote.

The Chief Executive Officer

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

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

The REMCO formally evaluates the performance of the CEO against agreed performance measures and targets at least annually. The REMCO oversees the succession planning for the CEO. This is further discussed at the DAC where all non-executive directors are present for consideration.

The company secretary

Yolande Mouton is the company secretary of the group. The company secretary acts as a conduit between the board and the organisation and is responsible for board administration, liaising with the Companies and Intellectual Property Commission, the JSE and providing corporate governance advisory services to the board.

Board members have access to legal and other independent professional expertise when required. This is at the cost of the group through the company secretary. The DAC has expressed its satisfaction with this arrangement.

The DAC reviewed the qualifications, experience and competence of the company secretary through discussion and assessment and noted that she had performed all formalities and substantive duties timeously and in an appropriate manner. The committee confirmed its satisfaction in all instances.

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

Board committees

Apart from the DAC, which is required in terms of the Banks Act, Act 94 of 1990 (Banks Act) to comprise only non-executive directors, the composition of all committees is reviewed annually by the DAC and approved by the board.

All committees comprise at least 3 members, are chaired by independent non-executive directors and include a minimum of 2 independent non-executive directors so as to enable the appointment of a lead independent director under circumstances where the chairman of a committee becomes conflicted on a specific matter or non-independent for a period of time. All board members are welcome to attend committee meetings, although they do not have voting rights in committees of which they are not members.

Attendance of board and committee meetings

The board meets 6 times a year. *Ad hoc* meetings may be held during the year as required. A quorum comprises a majority of directors of which at least 50% must be non-executive. The board is satisfied with the level of attendance of meetings, which enabled it to fulfil its responsibilities in accordance with its charter.

	Board	Audit committee	DAC	RCMC	REMCO	SESCO
Number of meetings	6	3	2	5	3	2
SL Botha	6	3[1]	2	5[1]	3	2[1]
AP du Plessis[2]	2	1[1]	—	1	—	—
SA du Plessis[3]	5	2	2	4	—	1
MS du Pré le Roux	6	1[1]	2	—	2[1]	—
CH Fernandez	6	3	2	—	—	—
GM Fourie	6	3[1]	—	4[1]	3[1]	—
GR Hardy[4]	6	3[1]	—	5	—	—
V Mahlangu	6	3[1]	2	5	3	—
TE Mashilwane	6	3	2	—	—	2
NS Mashiya[5]	6	3[1]	—	5[1]	—	2
DP Meintjes	6	1[1]	2	—	3	2
PJ Mouton[6]	6	—[1]	2	5	2	—
CA Otto[7]	6	—[1]	2	5	3[1]	—
JP Verster	6	3	2	5	—	—

(1) *Attendance by invitation.*
(2) *Mr AP du Plessis retired from the board and as a member of the RCMC on 30 June 2022.*
(3) *Professor SA du Plessis was appointed as a member of the SESCO on 1 October 2022.*
(4) *Mr GH Hardy was appointed to the board and as a member of the RCMC on 1 July 2022.*
(5) *Mr NS Mashiya resigned from the board and as a member of the SESCO effective 31 March 2023.*
(6) *Mr PJ Mouton was appointed as a member of the REMCO on 1 October 2022.*
(7) *Mr CA Otto retired from the REMCO on 30 September 2022.*

Group executive committee

Composition	Purpose	2023/2024 focus areas
As per page 55 and the 2 annually elected development members. **Quorum** At least 3 of the following: CEO, CFO, executive: risk management, executive: Retail bank and executive: Business bank (quorum members) or replacement members as appointed by the group EXCO, subject to at least 2 being quorum members.	• Conducts operational decision-making • Implements board-approved strategic decisions • Conducts ongoing approvals of an administrative nature **Meeting frequency** Meets twice a week with an extended monthly meeting.	• Enhancing client experience • Implementation of the People Plan – Attract and retain top talent – Implementation of new performance process and culture – Development and growth of our people (internal mobility, iAcademy, leadership academy) – Driving transformation and inclusivity

Corporate governance continued

Audit committee

Composition	Purpose	2023/2024 focus areas
Independent non-executive directors • JP Verster *(chairman)* • SA du Plessis • CH Fernandez • TE Mashilwane **Management attendees** • GR Hardy • AP du Plessis (up to 30 June 2022) • GM Fourie • NS Mashiya (up to 31 March 2023) • M Palmieri (compliance) • D Flannery (internal audit) **By invitation** • All directors • External auditors **Quorum** At least 50%, but not fewer than 2 members.	• Considers the combined assurance arrangements with a focus on internal audit, compliance and external audit • Evaluates the adequacy and efficiency of the internal control systems and accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of the business • Evaluates the going concern status of the group • Considers the continuous independence of the external auditors • Considers the integrity of the financial statements and the sustainability matters forming part of the integrated annual report • Considers reports dealing with the requisite disclosures in the financial statements • Reviews the financial statements for correctness and recommends these to the board for approval • Considers the CEO's and CFO's responsibility statement	• Assessment of the critical accounting estimates and judgements applied by management, given the continued volatile economic conditions and growth in the access facility • Governance over financial controls across the group, especially in Capitec Life, as it commences with operations • Review of the successful adoption of IFRS 17 *Insurance Contracts* The audit committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the audit committee's report for the year from page 136.

Directors' affairs committee

Composition	Purpose	2023/2024 focus areas
• SL Botha *(chairman)* • All non-executive and independent non-executive directors **Quorum** At least 50%	• Monitors the effectiveness of corporate governance • Deals with matters relating to the nomination of new directors according to a board-approved policy • Evaluates of the performance of the board and its committees	• Ongoing refinement of the Capitec group's corporate governance framework and processes given the increasing complexity of the group's business • Board succession planning, including improved diversity • Executive succession planning • Board effectiveness The DAC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Human resources and remuneration committee

Composition	Purpose	2023/2024 focus areas
• DP Meintjes *(chairman)* • SL Botha • V Mahlangu **Non-executive directors** • CA Otto (up to 30 September 2022) • PJ Mouton (from 1 October 2022) **Management attendees** • GM Fourie • R Butler **By invitation** • MS du Pré le Roux **Quorum** At least 50%, but not fewer than 2 members.	• Ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act, Insurance Act, Act 18 of 2017 and regulations • Ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders	Refer to the remuneration report on page 105 for the focus areas. The REMCO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the remuneration report from page 105 for more information on the REMCO's activities.

Risk and capital management committee

Composition	Purpose	2023/2024 focus areas
Independent non-executive directors • SA du Plessis *(chairman)* • V Mahlangu • JP Verster **Non-executive directors** • PJ Mouton • CA Otto **Executive directors** • AP du Plessis (up to 30 June 2022) • GR Hardy (from 1 July 2022) **Management attendees** • GM Fourie • NS Mashiya (up to 31 March 2023) • D Flannery (internal audit) • M Palmieri (compliance) **Quorum** At least 50%, but not fewer than 2 members.	• Assists the board in evaluating the adequacy and efficiency of the risk and capital management systems and processes and the significant risks facing the group • Monitors that risk assessment is performed continuously • The chairmen of the audit committee and the RCMC serve on the respective committees to facilitate increased effectiveness of the respective functions • Monitors risk management in the group	• Credit risk • IT and cybersecurity risk (including system stability) • Impact of the Financial Sector Laws Amendment Bill and the introduction of financial loss-absorbing capital and deposit insurance • Regulatory and legislative developments • Environmental, social and corporate governance • Capitec Life and insurance The RCMC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the risk management report from page 77 for more information on Capitec's risk management.

Social, ethics and sustainability committee

Composition	Purpose	2023/2024 focus areas
Independent non-executive directors • TE Mashilwane *(chairman)* • SA du Plessis (from 1 October 2022) • DP Meintjes • NS Mashiya (up to 31 March 2023) **Management attendees** • KE Barker • R Butler • J Rossouw (financial education) • L Moodley (CSI) • YM Mouton • M Palmieri (compliance) • R Wentzel (operational risk) **Quorum** At least 50%, but not fewer than 2 members	• Monitors activities relating to social and economic development, good corporate citizenship and the environment to promote the collective well-being of society, thereby facilitating the sustainable growth of the group • Tracks the impact of the group's activities and services, with specific focus on client and employee relations • Sets strategic objectives for sustainability and monitors ESG management in the context of the said ESG principles	• Driving ESG principles to continuously integrate same into the Capitec culture and business strategy • Achieving Level 1 B-BBEE status • Diversity and inclusion The SESCO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the SESCO's report from page 59 for SESCO's contribution.

Ad hoc committees

Large exposures committee

The committee approves credit exposures in excess of 10% of bank capital on an *ad hoc* basis, as may be required.

Investment committee

The committee considers management proposals for equity investments and the acquisition of going concern operations by the group in excess of R50 million.

Our leadership

Committed to the founding fundamentals of simplicity, accessibility, affordability and personalised service, our leaders guide our strategy and our people. Aligning the interests of employees and other stakeholders – clients, investors, regulators, suppliers and society at large – serves the best interests of the group.

Non-executive directors

Michiel Scholtz du Pré le Roux (73)

BCom LLB, DCom (hc)

Michiel was chairman of Capitec and Capitec Bank from 2007 until 31 May 2016 when he stepped down. He continues to serve on the boards as a non-executive director. He was the bank's CEO until 2004.

Michiel was appointed to Capitec's board on 1 March 2001 and to Capitec Bank's board on 6 April 2000.

Petrus Johannes Mouton (46) (Piet)

BCom (Mathematics)

Piet serves as a non-executive director on the boards of various companies, including Curro Holdings, PSG Group, PSG Konsult and Zeder Investments. Piet retired as the CEO of PSG Group upon its delisting from the JSE in September 2022.

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

Chris Adriaan Otto (73)

BCom LLB

Chris serves as a non-executive director on the boards of various companies, including PSG Group, Agri Voedsel, Distell Group, Kaap Agri and Zeder Investments.

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

Independent non-executive directors

Susan Louise Botha (58) (Santie)

BEcon (Hons)

Chairman of the boards and the DAC

Santie has served as an executive director of MTN Group (2003 to 2010) and Absa Bank (1996 to 2003).

She was Chancellor of Nelson Mandela University from 2011 until 2017. She is currently the chairman of Curro Holdings and Famous Brands. Santie has received a number of awards, including Business Woman of the Year (2010) and Top 100 Most Reputable Africans (2018).

Santie was appointed to the boards of Capitec and Capitec Bank as well as chairman of the boards on 1 June 2019. She was appointed as the chairman of Capitec Life on 26 October 2022.

Stanislaus Alexander du Plessis (50) (Stan)

BCom (Mathematics), BCom Hons (Economics), MPhil (Economics), PhD (Economics), AMP

Chairman of the RCMC

Stan is chief operating officer and professor of economics at Stellenbosch University. He is a specialist in macroeconomics and monetary policy and has been an advisor to the South African Reserve Bank (SARB) and National Treasury on macroeconomic policy. He serves on various boards and committees of the university. Previous positions include economist at Prescient Securities and Old Mutual Asset Managers (UK). He is the chairman of the BER governance committee and a past president of the Economic Society of South Africa.

Stan was appointed to the boards of Capitec and Capitec Bank on 25 September 2020.

Our leadership continued

Cora Hedwick Fernandez (49)

BCom, BCompt (Hons), CA(SA)

Cora is a chartered accountant with extensive experience in investment management and private equity. She serves on various boards including Redefine Properties, Sphere Holdings, Spur Corporation and Tiger Brands. She also serves on the committees of 27Four Black Business Growth Fund, Allan Gray and the National Empowerment Fund. She previously served as chief executive: institutional business at Sanlam Investment Holdings, managing director of Sanlam Investment Management and CEO of Sanlam Private Equity.

Cora was appointed to the boards of Capitec and Capitec Bank on 25 September 2020 and resigned from the latter board on 29 November 2022 after appointment to the board of Capitec Life on 26 October 2022.

Vusumuzi Mahlangu (52) (Vusi)

BSc (Chemical Engineering), MBA

Lead independent director

Vusi is the co-founder and director of Tamela. He has extensive experience in finance and investment banking. He serves on the boards of Emira Property Fund, Cure Day Hospitals and Aon South Africa. Previous positions include CEO (and co-founder) of Makalani Holdings, investment banker at Investec Bank and production manager at Afrox.

Vusi was appointed to the boards of Capitec and Capitec Bank on 25 September 2020.

Thetele Emmarancia Mashilwane (47) (Emma)

BCom (Hons), CA(SA), RA, MBA

Chairman of the SESCO

Emma is the co-founder and CEO of Masa Risk Advisory Services. Her previous positions include CFO at Carl Zeiss Optronics, head of internal audit at Nkonki Incorporated, senior manager at KPMG and CFO at Masana Technologies. She serves on the board of Tiger Brands and previously served on the boards of Famous Brands and Murray & Roberts.

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

Daniel Petrus Meintjes (66) (Danie)

BPI (Hons) (Industrial Psychology), AMP

Chairman of the REMCO

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

Danie was appointed to the boards of Capitec and Capitec Bank on 28 November 2018. He will retire at the conclusion of the AGM on 26 May 2023.

Jean Pierre Verster (42)

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

Chairman of the audit committee

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

Jean Pierre was appointed to the boards of Capitec and Capitec Bank on 23 March 2015. He was appointed to the board of Capitec Life on 26 October 2022.

Executive directors

Gerhardus Metselaar Fourie (59) (Gerrie)

BCom (Hons), MBA

CEO

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

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

Grant Robert Hardy (41)

BCom (Hons), CA(SA)

CFO

Grant joined Capitec Bank in 2015. He is a chartered accountant who completed his articles with Deloitte in their financial services team following which he spent 8 years working in the banking sector in the United Kingdom. He has fulfilled various roles in the financial management division at Capitec Bank and was serving as group services financial head when he was appointed as CFO with effect from 1 July 2022.

Grant was appointed to the boards of Capitec and Capitec Bank on 1 July 2022.

André Pierre du Plessis (61)

BCom (Hons), CA(SA)

CFO

André served on the boards of Capitec and Capitec Bank from 2 May 2002 until his retirement on 30 June 2022.

Nkosana Samuel Mashiya (47)

MCom (Economics)

Executive: risk management

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

Nkosana was appointed to the boards of Capitec and Capitec Bank on 1 June 2016 and resigned effective 31 March 2023.

Company secretary

Yolande Mariana Mouton (56)

BSc (Hons), MSc

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

Group executive committee

In addition to the CEO and CFO, the group EXCO comprises the following members:

Katherine Elizabeth Barker (37)

BCom (Actuarial Science), PGDip (Act.Sci), Fellow of the Institute and Faculty of Actuaries

Executive: insurance

Katherine joined Capitec on 1 June 2021. Before joining Capitec, she was the head of the life and health business for Southern Africa at Swiss Re. Katherine has 16 years' experience in the insurance and reinsurance industry in South Africa. She has extensive knowledge in micro-insurance, group and individual life insurance pricing and product development and has been accountable for various end-to-end insurance value chain operations during her career.

Rizwana Butler (48)

BSocSc (Hons)

Executive: human resources

Rizwana joined Capitec Bank on 1 March 2021. Over a period of over 20 years at fast-moving consumer goods giant Unilever, she gained experience across both generalist and specialist fields. During her time at Unilever, Rizwana served in a number of local South African roles, regional roles across Africa, the Middle East and Turkey leading talent, culture and organisational transformation. Her most recent appointments at Unilever were as head of HR: Nordics and head of HR: East Europe across 20 countries. Rizwana started her career in 1997 as a human resources management trainee at Tavistock Collieries, a coal mine subsidiary of JCI Limited.

Willem de Bruyn (52) (Wim)

BSc (Hons) (Computer Science)

Executive: business development and technology

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

Karl Rainer Kumbier (51)

BCompt, PGDA, CA(SA), CFA

Executive: Business bank

Karl joined Capitec Bank in 2020 as the executive of the Business bank, following the acquisition of Mercantile where he was the CEO. Before joining Mercantile in 2010, he worked for the Standard Bank group for 9 years in various positions, including provincial director: Western Cape and chief operating officer of Stanbic Bank Ghana Limited.

Graham Roy Lee (48)

BBusSci (Hons), CGMA, MBA

Executive: Retail bank

Graham joined Capitec Bank in January 2003. He has performed a number of leadership roles at Capitec in various divisions including finance, IT, credit, digital and data.

He has over 25 years of experience in financial or technology institutions in 5 different countries; Zimbabwe, the United Kingdom, Australia and Nigeria in addition to South Africa. He started his career in investment banking in Zimbabwe in 1997 before continuing in London with Morgan Stanley International. His career outside of Capitec includes writing financial software and data analytics in Australia and leading a micro-finance bank in Nigeria. He also lectured part-time for the MBA programme of the University of Stellenbosch Business School.

Hendrik Albertus Jacobus Lourens (57) (Henk)

BCom (Hons), CA(SA)

Executive: strategic initiatives

Henk joined Capitec Bank's predecessor in 1999 as head of the branch acquisitions department. He was appointed as Capitec's operations manager responsible for the Northern Cape, Western Cape, Eastern Cape, Free State and KwaZulu-Natal in 2001. He held this position until 2007 when he became the national sales manager. After the incorporation of Mercantile Bank into Capitec Bank, his role was changed to executive: Retail bank and after a restructure of the executive committee, he was appointed as the executive of strategic initiatives, in charge of value-added services, business solutions, emerging markets, Live Better and Capitec Connect. Henk started his career with Ernst & Young.

Francois Viviers (39)

BCom (Hons)

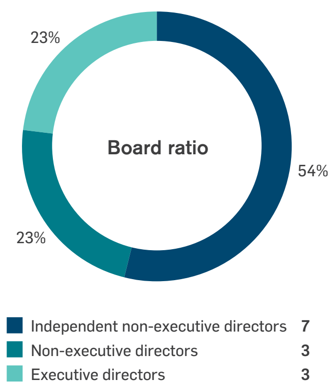
Executive: marketing and communications

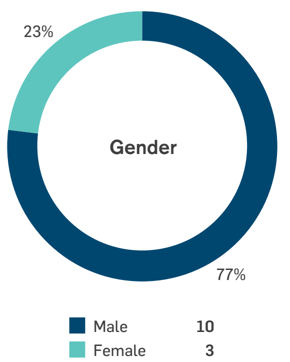
Francois joined Capitec Bank as national brand manager in 2011. He served on the group EXCO as a development member during 2015. During 2015 and 2016, he fulfilled various positions at Capitec Bank, namely head: client relationship marketing and head: marketing and corporate affairs. He was appointed as executive: marketing and communications on 1 June 2016. He started his career at the Shoprite Group where he fulfilled various roles including marketing manager for Shoprite Africa and Indian Ocean Islands.

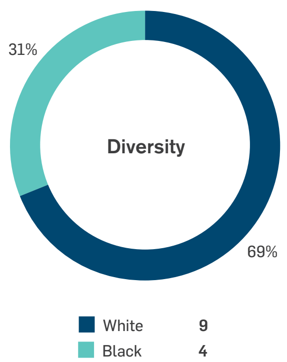
Temporary members

An acting executive: risk management has been appointed until such time as a permanent replacement is recruited.

There are 2 development seats on the group EXCO to provide senior employees with the opportunity to gain experience at an executive level. The incumbents rotate annually. The seats were filled by Basani Maluleke, divisional executive: operations and April Baloyi, divisional executive: emerging markets services during the 2023 financial year. The development members for the 2024 financial year are Busi Radebe, head: card and electronic payments and Xolani Mhlaba, divisional executive: business banking financial management.







Social, ethics and sustainability committee report

The SESCO monitors the group's activities related to:

- social and economic development
- good corporate citizenship
- environmental, health and public safety
- the impact of its activities and of its products and services
- consumer relations
- labour and employment relationships
- sustainability based on ESG principles.

The committee functions within the scope of an annually reviewed board-approved charter and meets biannually a year. A record of meeting attendance can be found on page 51.

The members of the SESCO are:

- Emma Mashilwane *(independent non-executive director and the chairman)*
- Stan du Plessis *(independent non-executive director)*
- Danie Meintjes *(independent non-executive director)*
- Nkosana Mashiya[1] *(executive: risk management).*

[1] *Mr Mashiya resigned effective 31 March 2023. His successor will be invited to join the committee.*

Read more about the committee members' qualifications and experience in their profiles on pages 55 to 57.

The executive: human resources, head of operational risk, company secretary, head of CSI and heads of compliance (Capitec Bank and Capitec Life) are invited to attend all meetings of the committee. The chairman may invite such executives and senior managers as appropriate to attend and be heard at meetings of the committee.

Key focus areas

Social and economic development	Our values – page 27 Human rights – page 63 Ethics – page 46 Employment equity – pages 63 to 69 B-BBEE – page 74
Good corporate citizenship	Social responsibility – pages 70 to 74 Our business model – page 36
The environment, health and public safety and the impact of the company's activities and of its products and services	Page 75
Consumer relations and commitment to consumer protection laws	Pages 14 and 77 The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.
Labour and employment	Pages 63 to 69

Social, ethics and sustainability committee report continued

The company demands a high standard of ethical conduct in its business practices and its dealings with stakeholders. An anti-bribery and corruption framework and ethics framework provide guidance on appropriate conduct. A range of policies giving guidance on ethical conduct are available on the company's intranet. Employees 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 46 for further information on the board's responsibility for creating an ethical culture.

Planned areas of focus for the 2024 financial year

- Driving ESG principles to continuously integrate these into the Capitec culture and business strategy
- Achieving Level 1 B-BBEE status
- Diversity and inclusion.

Report

The committee reviewed the relevant matters during the year. Based on the reports submitted to the committee and discussions with management, the committee 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 all 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 SESCO

18 April 2023

Delivering on the sustainability goals

Our purpose supports the intent of the UN SDGs and our business model contributes to these outcomes for humankind. Throughout this document, we have highlighted sections of the report applicable to the UN SDGs.

Our contribution towards the UN SDGs

During the current year, we made contributions towards the achievement of the following 9 UN SDGs:

Goal 1: End poverty and Goal 2: Zero hunger

The COVID-19 pandemic intensified poverty and hunger in South Africa. Our contribution towards these goals is focused on social investment initiatives that address financial and digital inclusivity as well as access to quality education. In addition, through our employee volunteerism, we provided meals to people in disadvantaged communities in the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng.

Read more about our contribution to society and communities from page 70.

Goal 3: Good health and well-being

The current deteriorating economic conditions and other societal concerns have created psychosocial issues in our communities which have filtered into our workplace. A staggering 30% of all workforces in South Africa are experiencing significant incidences of psychosocial issues like stress, anxiety, depression and gender-based violence.

To address these concerns, we have become more involved in promoting the well-being of our employees and their communities. Through our employee volunteerism programme, employees were offered the opportunity to attend self-help interactive virtual workshops hosted by the University of Cape Town mental wellness forum.

Goal 4: Promote inclusive, quality education and lifelong learning for all

The Capitec Foundation's main objective is to create a brighter future for young South Africans by upskilling them with the necessary numeracy and financial literacy skills, thereby empowering them to manage their financial lives better. This enables them to access secondary and tertiary education opportunities and bring long-term change to their communities and the country as a whole.

Read more about our contribution to society and communities from page 70.

Goal 5: Promote gender equality

The group supports gender equality by promoting diversity and inclusion in the workplace. Our employment equity report submitted to the Department of Labour reflects our commitment to gender equality and highlights the progress we have made in recent years.

Read more about our employees from page 63.

Goal 6: Clean water and sanitation

The group contributed towards the achievement of this goal by donating more than R1 million to disaster relief after the April 2022 flooding in KwaZulu-Natal and the recurring droughts in the Eastern Cape.

Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all

To create sustainable economic growth, it is necessary for people to have quality jobs that stimulate the economy without harming the environment. Despite the current deteriorating economic conditions, we have created employment opportunities. Additionally, we have created a safe and healthy working environment and cultivate a culture that promotes diversity, inclusion and personal development. Our employees are fairly remunerated and we focus on investing in young talent across South Africa.

Read more about our employees from page 63.

Goal 10: Promote social, economic and political inclusion for all

We are committed to complying with the Broad-based Black Economic Empowerment Act, Act 52 of 2003, as a tool to achieve social and economic empowerment in South Africa. Consequently, we adhere to the requirements of the amended Financial Sector Code, which actively promotes a transformed and globally competitive financial sector.

Read more about our B-BBEE scorecard on page 74.

Our empowerment financing objectives are met by funding affordable housing initiatives and designated small and medium enterprises through Imvelo Ventures.

Read more about our contribution to society and communities from page 70.

Goal 13: Take urgent action to combat climate change and its impacts

We acknowledge and understand the urgency of addressing the risk of climate change. During the current financial year, we have made significant strides in monitoring and decreasing our impact on the environment.

We are committed to starting our science-based target-setting journey in the upcoming financial year. This will include the drafting of a transition plan that aligns with the goals set by the Paris Agreement.

Read more about our actions taken to limit our impact on the environment from page 75.

Our people are the heart of our business

Our vision is for Capitec to be the place where world-class talent can unlock their full potential. Our mission is to inspire our people to drive business performance through insight and innovation while providing them with exceptional experiences when it matters most.

Across the globe, expressions like 'the great resignation' and 'quiet quitting' have gripped everyone's attention. Organisations are needing to shift their focus on building a personalised employee experience in a hybrid world to retain talent and make their people feel valued and appreciated.

In South Africa, and at Capitec, our people are no different. They have faced continuing waves of disruption to their lives in the form of water shortages, load shedding and economic instability. They have recalibrated to a new way of working – a hybrid way of working – and like the rest of the world, have realised they are still dealing with the residual effects of COVID-19. All these factors have shifted the priorities of our people and therefore their expectations of their employer. Their need for understanding, support, flexibility and development are far greater than before.

Last year, we set our people vision, which is to make Capitec **the place for world-class talent to unlock their full potential**. To achieve this, our mission is to **inspire our people to drive business performance** through **insight** and **innovation** while **providing them with exceptional experiences when it matters the most.**

Despite a demanding year, we have not wavered in this commitment. We are united by a strong sense of purpose – to make financial solutions simple and transparent so that our clients can live better. This is only made possible through our people. Testament to this commitment are our scores in the 2022 Employee Engagement Survey which confirms our people's commitment that our people are with us on this journey and are willing to go the extra mile. In addition to understanding our people's level of engagement, commitment and willingness, the survey sought to measure levels of well-being, recognition and team cohesion. Gallup (State of the Global Workplace: 2022 Report) indicated that only 20% of employees, globally, are engaged at work and the engagement results of South African companies are trending at around 24% year-to-date.

Similarly, Capitec's annual attrition rate at a group level is marginally lower at 12.1% compared to the financial services industry sector which is at 14%.

Below is an overview of our attrition based on group and gender.

Group	Females	Males	Total
African	701	484	1 185
Coloured	220	159	379
Indian	34	58	92
White	87	115	202
Total	1 042	816	1 858

Within human resources, we continue to use Capitec's key fundamentals of simplicity, accessibility, affordability and personalised service to shape people solutions for a digital world.

We also introduced a fundamental shift in the way we lead, develop, support and engage our people. A deeper look into the first step of our transformation journey, which was about getting the basics right, has been centered on the following strategic levers:

- **Attract and retain the best talent:** attract the very best talent into our organisation and create a great employee experience that makes them want to stay.
- **Lead and develop for the future:** develop our people and harness their talents to deliver a strong pipeline for executive and senior succession.
- **Build world-class skills and capabilities**: build new people capabilities of the future, with a focus on leadership, data and technology skills.
- **Rewire the organisation for speed and agility:** embed new ways of working and an organisational set-up for the future.
- **Nurture our growth culture:** ensure inclusion and belonging for all in addition to prioritising health and well-being.

Our people are the heart of our business continued

Attract and retain the best talent

Attracting top talent

At Capitec, we want to be the company of choice for our investors, the bank of choice for our 20.1 million clients and we are striving to be the employer of choice for our people.

Our goal is to create a continuous supply of diverse and best-in-class talent for Capitec's current and future needs, with a specific focus on technology, digital and data skills.

We continue to be a growing brand that has, year after year, contributed jobs to South Africa's struggling economy. In recent years, with our focus on becoming the best digital bank in the world, we have shifted to contending within a highly competitive talent market. Therefore, the attraction of top technical talent remains one of our key strategic levers and the competitive talent landscape we operate within has necessitated a stronger marketing approach of our employer brand.

A critical part of our attraction strategy has been to utilise several different channels, such as our corporate careers site, social media platforms, job boards and professional networks, to showcase our job opportunities at Capitec. Through these channels, we share our vision, our employee stories and insights into our leadership and culture to position our employer brand and generate a sense of why we are proud to work for Capitec.

We have seen this approach work with our target market and sought-after external talent who are considering their next employer. A key indicator is the significant increase in application rates of niche or critical skill sets, as well as our LinkedIn followership, which have contributed to a healthy external appointment rate for Capitec.

- The number of external applications received through all channels during 2022 was 472 720
- Capitec appointed 2 598 external employees into vacant or new job opportunities. This is an increase of 90% with 1 367 appointments being made in the previous financial year. 90% of the external appointments made were from designated groups, namely people who are black, female or disabled
- We continue to focus on hiring technology and data talent to support our digital innovation initiatives. This translated into 20% of all external appointments being appointed within these skill sets. This appointment rate was achieved through partnerships with dedicated recruitment business and human resources partners. In addition, we spent time evaluating our flexible work offering in terms of hybrid-working, or in specific instances, full remote work
- Our LinkedIn followership grew by 122 218 members from 455 292 to 577 510 between 1 March 2022 and 28 February 2023.

Our 49% internal appointment rate remains a strong driver of retention and development. We achieved this by offering internal career mobility, specifically for our employees working in our branches and business support centre.

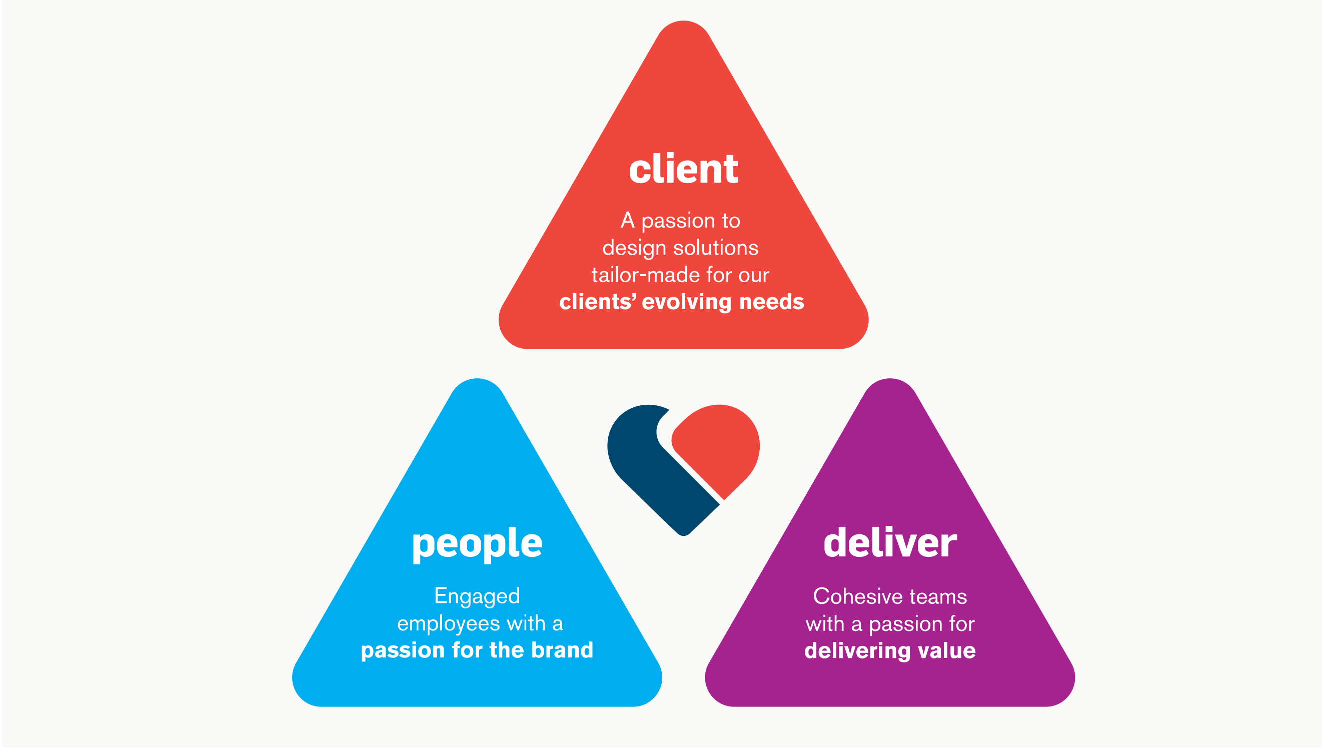
Capitec experienced a net growth in employees over the reporting period of 693, bringing our total number of employees to 15 451 (from 14 758 at the end of the previous financial year).

Improving the Capitec hiring experience

Our recruitment process includes a holistic review of candidates to determine their fit for Capitec and the position they are applying for. The launch of the revised Capitec hiring recipe was completed in September 2022 and there are clear indications that suggest that the hiring recipe is yielding efficiencies in terms of the required time to fill. This revised approach provides an enabling, seamless remote hiring process and engaging candidate experience, while supporting our hiring managers to select the best. This process includes:

- the introduction of mobile-enabled technology with video interviews
- the introduction of a culture screener which measures the applicant's likely alignment with the overall Capitec leadership principles
- the implementation of a live coding assessment environment for technology roles
- realtime feedback.

During the next financial year, we intend to increase our efforts around proactively sourcing world-class talent to feed the Capitec talent ecosystem, specifically for scarce and critical skills, senior strategic talent and young talent. We also intend to embed and mature the Capitec hiring recipe to achieve an increased appointment rate, consistency in our appointment approach and an improved personalised appointment experience. Finally, we will renew our approach to onboarding new employees through an employee experience that engages the heads, hearts and hands of our new hires to drive long-term engagement and commitment.



Lead and develop for the future

Reset performance

This year, we embarked on a journey to reset our performance practices with an emphasis on enhanced personal and business performance as well as individual growth.

We set out to deliver against our performance objectives with a balanced weighting of hard measures and leadership impact. Across the organisation, we moved realtime feedback, from line managers to employees, in their continuous performance development engagements from 75% (2020) to 79% (2022).

At the heart of our reset performance strategy, we continue to drive:

- business performance
- a simplified performance development solution
- the integration of business cadences and performance cadences supported by realtime conversations
- employee ownership around performance and their personal growth which supports business growth.

Talent pipeline initiatives

We are committed to unlocking the full potential of our people. Over the years, our distinctive culture has been built on 15 leadership principles which are incorporated in 3 culture anchors.

Capitec's leadership and culture continuity is key to the continued success and growth of our business. To enable this, this year, we concluded an intense evaluation of our leadership pools.

67% of our senior leadership appointments were filled internally, in line with our strategy to build a diverse talent pipeline. The market responded positively to our newly appointed CFO, an internal appointment, groomed by one of Capitec's founding members and ex-CFO.

Due to our investment in transformation, we have seen positive shifts in representation at the top and senior management levels over the past 3 years from 20% to 37% and 10% to 27%, respectively. Our focus will now shift to developing high-potential talent at middle management level.

Our people are the heart of our business continued

We have identified certain areas within the business that need to expand their future leadership talent pools. To achieve this, we secured our largest intake of graduates since the inception of the graduate development programme in 2016. With 16 new starters joining our business in early 2023 (100% black and 50% female), we now have a total of 22 potential future leaders in the programme. We also had 4 graduates successfully complete the programme in September 2022 who have been placed in permanent roles within the business.

Building our internal specialist pipeline for scarce and critical roles in a strained talent economy remains vital to our continued success. Data, technology, credit and financial management skills are among those we have prioritised. In the 2022 academic year, we bolstered our external bursary pipeline with 18 external bursars, of which 78% are black and 61% are female. In addition, we placed 6 external bursars in the business.

The intention of Capitec's internal bursary programme is to increase our scarce and critical skills, improve readiness for succession and offer professional certification. We extended 38 bursaries to existing employees, bringing our current number of internal bursars to 195 (83% black and 60% female). In 2022, 12 bursars successfully completed their qualifications (8 bachelor's degrees, 2 diplomas, 1 Masters in Business Administration and 1 postgraduate diploma). In addition, we partnered with the University of the Western Cape and University of Potchefstroom to strengthen our scarce and critical skills pipeline as part of the BMI Masters programme in business analytics and data science with 5 external bursars (20% black and 100% male), all of whom were placed in our business in 2023.

Build world-class skills and capabilities

Building a learning organisation

The development of our people is regarded as a top priority for our business and is seen as one of the most important enablers to unlocking the full potential of our people and our business. We are working towards transforming Capitec into a learning organisation where learning is done in the flow of work so that all employees are enabled to own their development with dedicated support from leaders.

Our formal learning initiatives continue to play a key role in affording all our people development opportunities, while addressing key business needs. We provide our people with access to 4 types of learnership programmes which are hosted internally, in partnership with external providers, as follows:

Business focus	Banking acumen (all employees)		Management and leadership (leaders-specific)	
Programme	Core Banking and Financial Services	Agile Banking Professional	Generic Management	BCom – Business Management
Level	NQF 4	NQF 5	NQF 5	NQF 7
Duration	12 months	14 months	16 months	3.5 years (14 months per year of study)

During the past year, we had 2 419 (94% black and 68% black female) people partake in the above programmes.

Our formal learning courses are crucial to driving a learning organisation. The table below represents the number of employees attending formal learning courses which are hosted both face-to-face and virtually.

Number of employees attending courses	2023	2022
Onboarding programmes	1 997	1 247
Functional and technical programmes	2 900	2 067
Management and leadership programmes	1 604	658
Compliance-related programmes	701	671
	7 202	4 643

The use of a digital learning platform continues to be the most effective and scalable way to deliver learning to our people. The number of courses completed through our digital learning platform is as follows:

Courses completed	2023	2022
Onboarding programmes	6 800	4 046
Functional and technical programmes	15 183	13 359
Management and leadership programmes	12 997	5 217
Compliance-related programmes	15 265	15 472

The 2023 numbers show a general increase in digital learning activity in most of the programme categories. The large increase in management and leadership programmes is due to the design and utilisation of audio visual and digital tools in support of Capitec's divisional leadership conferences which commence at the start of each new year.

In 2022, we increased utilisation of the learning catalogue by 22% to 1 593 online resources and enhanced accessibility through our mobile learning application. We believe that our digital learning capability is our future. We will continue to develop this capability and encourage people to learn in the flow of work, anywhere and anytime.

Capitec leadership academy

One of the greatest opportunities in a rapidly growing organisation like Capitec is to continuously build a pipeline of leaders that can lead the business into the future. To this end, we launched our Capitec leadership academy, founded on our 15 leadership principles, which provides leaders at all levels with the opportunity to grow into world-class leaders.

The first phase implemented in the academy was the Generic Management Programme which focuses on building foundational business management and people management acumen. Our diversity, equity and inclusivity agenda has been woven through the programme to ensure that transformation remains top of mind. This programme was prototyped with 200 leaders in the latter half of 2022. From January 2023, the programme will be implemented at scale to 1 120 leaders across all areas of the business.

We completed the first iteration of the Executive Development Programme with the purpose of developing 11 senior leaders (including 6 black employees) who form part of Capitec's leadership succession pool. The pinnacle of this programme is a 14-day international immersion which in 2022 took our delegates to Indonesia and Singapore.

Data and technology academy

Capitec's iAcademy will accelerate the growth of all our people in data and technology by ensuring they remain abreast of new skills and capabilities. We have an opportunity to provide all employees in the business (including operational and client-facing employees) the opportunity to join the iAcademy and to follow a career in data or technology.

During the past year, we implemented learning programmes to develop capabilities that are key to the future of Capitec and that support pipeline development of critical or scarce skills. These capabilities include data and business analytics, software testing, cloud, decision science, cybersecurity, information risk and payments.

We partnered with online learning platforms, including Udemy Business, Kubicle for data skills, as well as Cloud Masters. These platforms offer learning paths and career plans that enable all employees in technology roles to develop specialist skills, become multi-skilled and enable upward mobility.

In addition to building internal capabilities through the iAcademy, we are partnering with organisations on the recruitment and development of individuals with critical and scarce skills. Our Technical Accelerate Programme for technology graduates was completed in September 2022 and all 9 delegates commenced their careers with Capitec in October 2022. This 12-month programme focused on emerging future skills such as robotics process automation, cloud integration and machine learning/artificial intelligence.

Rewire the organisation for speed and agility

We set out on a journey to ensure that our organisational design processes are planned and deliberate with business strategy at the centre, creating an ecosystem where both people performance and business results can be improved. We continue to build improved people practices, through simplification, automation and systems to enable the business to plan its workforce and align its organisational structure, jobs and people to its strategic goals.

A simplified and streamlined organisational structure and people planning process was developed during 2022 to guide the business on key considerations when changing any aspect of the organisational structure, including the implementation of a technology solution to support the logging and tracking of all change requests related to the organisational structure, jobs and headcount positions.

Further enhancements planned for the new financial year include the development of in-system job profiling with automatic uploading and updating of job-related information onto SuccessFactors – a critical requirement to initiate recruitment and effortless internal people movement.

Our people are the heart of our business continued

A flexible organisational structure also requires the purposeful allocation and creation of jobs. A key imperative during 2022 was to initiate the development of a standardised job architecture framework that will guide how we define and structure jobs across the organisation, allowing for the effortless movement of people in response to new and changing priorities, and meaningful career path and development guidance in support of attracting, developing and retaining the best talent. This is a critical enabler for our people to remain engaged, inspired and to thrive in this new reality.

Nurture our growth culture

Building a culture of growth, inclusivity and equality requires appreciating the full range of our people's unique life experiences and their potential to contribute to Capitec. We value our people's right to free association by maintaining an amicable relationship with their union. We are on a journey to enable, embrace and celebrate our people's diversity for all to live their purpose every day. The diversity, equity and inclusion strategy was developed in 2021 which has been further refined to build an environment where our people continuously learn, experiment and thrive. In the past year, the focus was to raise awareness on our key themes of racial equity, gender equity and empowerment, as well as persons with disabilities, through various campaigns and initiatives that were rolled out during the year. These included the following:

- The Inclusive Leaders Project which is a leader-led intervention aimed at driving inclusive behaviour using a 360° assessment on diversity, equity and inclusion-specific competencies
- The 'ReThink DisAbility' inclusion campaign to support becoming a disability confident organisation by laying a foundation where there is wide and common understanding of disability as a type of diversity
- The #IamBold.IamBrave.IamMe Women's Month campaign to celebrate and affirm Capitec's leading women
- A renewed focus on anti-harassment with a new harassment policy aimed at creating a safer workplace.

Workplace profile in the employment equity report submitted to the Department of Employment and Labour for the period October 2021 to September 2022:

	Female				Male				Foreign nationals		
Occupational levels	**African**	**Coloured**	**Indian**	**White**	**African**	**Coloured**	**Indian**	**White**	**Female**	**Male**	**Total**
Top management	1	1	2	2	5	—	1	14	—	1	27
Senior management	5	4	5	18	5	6	3	55	—	2	103
Middle management	140	82	61	219	195	136	76	520	6	27	1 462
Junior management	1 140	479	98	282	646	390	115	319	14	13	3 496
Semi-skilled	5 377	1 220	154	180	2 437	668	114	152	3	4	10 309
Unskilled	—	—	—	—	—	—	—	—	—	—	—
Total permanent	6 663	1 786	320	701	3 288	1 200	309	1 060	23	47	15 397
Temporary employees	—	—	—	—	—	—	—	—	—	—	—
Total	6 663	1 786	320	701	3 288	1 200	309	1 060	23	47	15 397

Transformation progress at top management level improved by 4% compared to the previous financial year.

With a revised employee equity plan and changes to divisional equity targets, we will continue to work towards improving the representation at all levels of management. Specific initiatives to support this include succession planning, the leadership academy and other development initiatives, and the transitioning of operational and client-facing employees into technology-related roles through our internal mobility initiative.

Gender	**Female**	**Male**	**Total**	**Female %**
Top management	6	21	27	22
Senior management	32	71	103	31
Middle management	508	954	1 462	35
Other employees	8 947	4 858	13 805	65
Total representation	9 493	5 904	15 397	62

In 2022, female representation increased at top management from 18% to 22%, middle management from 34% to 35% and other employees from 64% to 65% in comparison to 2021. Top female representation increased from 61% to 62%. At top management, internal promotions during the year contributed to an improvement of 4% in female representation when compared to the previous year. Gender equity targets have been set for the coming year to increase female representation at management levels, with a specific focus on data and technology roles.

We are committed to enhancing the well-being of our employees, in addition to fostering a culture of inclusivity. To accomplish this, we will provide our staff with straightforward, user-friendly HR processes, as well as a wide range of programmes and benefits that promote their health and happiness:

- We will launch a revised leave policy which will provide greater flexibility and work-life balance support to all new parents - biological, surrogates and adoptive
- We aim to enhance our offerings from Kaelo and AskNelson to better cater to the counselling and support needs of our people whenever they require it. Our primary objective is to provide comprehensive and effective mental health support services to our employees
- Recognising the significant impact of financial stress on mental health, we are committed to exploring ways to support our employees during times of financial difficulty.

In conclusion

At Capitec, our people are the heart of our business. They have shown us that they are with us in the pursuit of making financial solutions simple and transparent so that our clients can live better. They enable this vision and live it each day through their willingness and commitment to putting the client first.

All efforts remain on further enhancing future skills and capabilities, creating a world-class employee experience through streamlining processes for simplicity and efficiency, and ultimately creating a culture where all our people feel included, valued, recognised and equipped to navigate and thrive in an unpredictable world.

Contributing to our society and communities

We are committed to addressing the numeracy and financial literacy challenges faced by many South Africans. We offer consumer financial education programmes and encourage employees to support community upliftment initiatives through our employee volunteer programme.

Community investment

Our CSI strategy is based on the UN SDGs and addresses issues that affect our communities. Our strategy focuses on the following goals: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, decent work and economic growth, reduced inequalities and climate action.

In line with this strategy, our CSI initiatives focus on improving numeracy skills, community support through employee volunteerism, charitable donations to various organisation and disaster relief.

The Capitec Foundation

The Capitec Foundation, an independent non-profit organisation, was established in 2015. The Capitec Foundation is a major beneficiary of Capitec's CSI investment. The Foundation's objective is to create a scalable model to support the efficient teaching of mathematics, thereby making a sustainable impact on the South African education system.

The model is based on the Whole School Approach and aims to strengthen the overall functionality of mathematics education in schools across South Africa. The World Health Organisation applies this approach in schools to address societal problems.

Key external role players in applying this approach are pre-service teachers (tutors), who are university students studying to become mathematics teachers. The approach was formulated based on a thorough understanding of existing challenges in the education system and wider economy. The approach received unanimous support from universities across South Africa as well as the Department of Basic Education (DBE).

The Capitec Whole School Approach includes the following components:

- Leadership development
- Mathematics teacher development
- Technology hub (blended learning)
- Learner development
- Tutor development
- Coordination.

We believe that equipping young South Africans with numeracy skills will grant them access to various education and employment opportunities, thereby benefitting their communities in the long term.

Leadership development programme

The programme's objective is to empower school principals and create cross-sectoral partnerships between business, government and communities. The programme is offered in collaboration with the University of Cape Town Graduate School of Business and the Principals Academy.

To date, the Foundation, in collaboration with its partners, has developed over 300 principals in 4 provinces (Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng). This resulted in approximately 300 000 learners, educators and community members benefitting from stronger leadership at schools.

Mathematics teacher development

The teacher development programme commenced in 2019 and focuses on the development of high school mathematics teachers. To date, the Foundation has reached over 1 200 teachers and benefitted over 1.5 million learners.

Feedback from the DBE indicates that teacher development workshops have an immediate impact on the quality of teaching. This favourable impact is due to teachers' ability to use innovative methodologies and mathematics content knowledge to deliver high-quality lessons to their students. This programme was added to the Capitec Whole School Approach to support mathematics teaching and learning in schools where our mathematics tutor model has been implemented.

Blended learning mathematics tutor programme

The blended learning mathematics tutor programme is the Foundation's flagship programme. Through this programme, we develop competent future mathematics teachers and confident students. The programme is holistic and addresses all of the components required to deliver effective learning in developing communities.

We believe that a multi-faceted approach is required to improve mathematics results in South Africa. This holistic approach will fill conceptual and content knowledge gaps in the education system, thereby developing learners' confidence in their ability to understand and succeed in mathematics. To achieve this goal, it is essential to provide learners with access to both digital and face-to-face tutoring, and modern teaching interventions.

Early feedback highlighted the importance of appropriate technological resources and stable internet connectivity for the programme to succeed. This led to the establishment of technology hubs at schools that are fully equipped with devices and strong connectivity. Additionally, our online mathematics platform was developed to stimulate learners through gamified activities.

The technology hubs are currently running at full capacity which indicates the high demand for interactive learning and signals the programme's success.

Tutor and student development

Through interactions with pre-service teachers, the Foundation found that university education students obtain limited practical experience. The shortage in practical exposure means that pre-service teachers often default to their own experience as learners and therefore rely on outdated teaching methodologies. This results in ineffective learning.

Therefore, this programme teaches university students innovative teaching methods that keep the new generation of learners engaged. Additionally, experienced mathematics teachers are used as mentors to guide the university students' development by observing lessons and providing feedback on their teaching styles and lesson planning.

The Foundation's aim is to provide holistic support to learners. This necessitates an awareness of societal issues that adversely impact learners' ability to learn. In response to identified issues, the Foundation started to provide food to learners before tutoring sessions.

Overview of the Foundation's performance

In 2022, the Foundation reached 6 schools in 2 provinces, with 4 blended and 2 online programmes. We developed 27 pre-service teachers, 8 mentors, 12 hub assistants and provided face-to-face tutorials to 290 learners.

We provided 2 300 grade 8 and 9 learners with access to our digital mathematics platform, which they can access through our technology hub on weekdays after school.

A total of 2 000 learners participated in 20 psychosocial workshops during term 2 and term 3.

Learners who attend our after-school programme, which consists of daily hub sessions and weekly tutorials, received a nutritious snack or meal to alleviate hunger and promote healthy lifestyles.

Capitec volunteerism

Capitec encourages its employees to give back to the communities in which we operate. Employee community involvement is enabled through our employee volunteer programme, which grants each employee 3 days volunteer leave per year. In the past year, Capitec granted a total of 2 418 volunteer leave days in support of the following acts of volunteerism:

- 1 085 volunteers took part in cooking programmes where over 30 000 meals were served to people in disadvantaged communities in the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng
- 345 employees volunteered to attend self-help interactive virtual workshops that focused on well-being in the workplace and the community. These workshops were hosted by the University of Cape Town
- 50 volunteers participated in our literacy initiatives through the Bookery and a further 20 were involved in activities at the Capitec Foundation schools
- 437 employees participated in beach clean-ups, life of a reclaimer and Green Pop initiatives. The Green Pop project aims to illustrate the importance of indigenous plants. We work closely with the World Wide Fund for Nature.

Charitable donations

In addition to the social support initiatives that we run, Capitec is committed to supporting non-profit organisations across South Africa. For instance, we have entered into a 3-year commitment to support 50 designated non-profit organisations and will make additional donations to various

Contributing to our society and communities continued

social-support initiatives in our communities. In the 2023 financial year, approximately R19.5 million was donated to different organisations across South Africa. These range from in-kind to strategic donations.

Disaster relief

We are passionate about our country and its future. Therefore, we support disaster relief initiatives to assist our clients and communities in affected areas. Our approach to national disaster relief is to support existing relief efforts by recognised disaster relief organisations.

Over R1.3 million was donated towards securing access to clean water in areas affected by the flooding in KwaZulu-Natal and the recurring droughts in the Eastern Cape.

Consumer financial education

Capitec's mission is to promote a culture of financial well-being for our employees, clients and communities through financial education. This mission has resulted in the creation of South Africa's most widely used source of continuous learning and inspiration. We have achieved this by creating an integrated financial education ecosystem that responds to the needs and concerns of South Africans in a manner that is relatable, valuable and fun. Our aim is to create a learning experience that is an ongoing, multi-channel conversation, keeping topics relevant, short and top of mind.

Live Better Academy

Our accessible and free online financial education platform contains a range of interactive courses offering users practical personal finance information and strategies. The courses cover fundamental money concepts and topics including budgeting, saving, investing and debt. The platform is reverse-billed, which means that users do not incur data costs when interacting on it. A total of 217 272 individuals registered on the Live Better Academy during the year. Registrations received a major boost with the launch of the Live Better Academy widget on the Capitec banking application. The widget is a miniature application that enables Capitec banking app users to access the platform via the app.

A total of 46 550 users completed one or more of the courses offered. We released the first micro course on the Live Better Academy in January 2023. The introduction of micro courses is part of a content strategy to provide more bite-sized learning experiences with a goal to increase completion rates and encourage re-engagement. At the end of the financial year, the platform had 432 376 registered users. We continuously receive encouraging feedback from users.

MoneyUp Chat on WhatsApp

Our new financial education solution on WhatsApp meets users on a widely used channel and delivers high levels of engagement through a bite-sized and conversational approach. With MoneyUp Chat, users engage with an automated menu-driven chatbot called Moola.

The MoneyUp Chat public launch in November coincided with a national multi-channel education campaign to create awareness around fraud and bank safety. The campaign included an interactive bank safety challenge on MoneyUp Chat. Users had to 'SlamTheScam' in 5 individual challenges. Engagement results were very positive with 65% of the 20 220 starters completing all 5 challenges.

As of the financial year-end, 29 081 individuals were subscribed on MoneyUp Chat.

Our goal in the next financial year is to substantially increase our user base and to implement a content strategy that re-engages users on a continuous basis.

Budget Champs

We reached 22 382 learners at 178 schools through our interactive card game. The programme delivers a fun budgeting and savings lesson to school learners and 353 Capitec employee volunteers participated this year. During these lessons, Capitec volunteers and facilitators from our implementation partners guide sessions wherein learners play our Budget Champs card game. We designed Budget Champs to teach essential budgeting and savings concepts in an interactive manner in small groups of up to 5 learners. The game aligns with the grade 7 economic and management sciences (EMS) curriculum.

An independent evaluation of the programme implementation was commissioned. The evaluation report made several recommendations, which will be applied to improve the implementation of the programme going forward.

Bank safety

The financial education team works closely with Capitec's financial crime and fraud operations teams to share bank safety information with Capitec clients and the broader public. These teams also collaborate to create ongoing awareness around prevalent fraud and social engineering tactics.

We ran a 4-week bank safety education campaign during August and September 2022 on 3 major commercial radio stations in the Western Cape, namely Ukhozi (isiZulu), Umhlobo Wenene (isiXhosa) and Heart FM (English). Through storytelling, the campaign illustrated typical scenarios of how consumers fall victim to fraudsters. A series of social media messages supported the radio campaign.

We delivered a festive season bank safety campaign in November and December. The multimedia campaign coincided with key calendar events including Fraud Awareness Week, Black Friday and the festive season. The national campaign that ran for 6 weeks shared information and tips through a 6-episode series on eMedia's television channels, awareness posts and videos on digital and social media channels, a 5-part interactive learning challenge on MoneyUp Chat on WhatsApp and direct client engagement SMS messages to create awareness around PIN and ATM safety during the festive season among clients that use mobile banking and cash.

The festive season bank safety campaign was preceded by direct client communication via email and in-app to create awareness around the latest fraud *modus operandi* among digital banking clients.

Other initiatives delivered and new programmes in development

GRAD and GRADnext magazines

We sponsored the printing and distribution of 136 000 copies of the GRAD magazine to 25 universities. The magazine targets first-generation, first-year students and contains articles to help them navigate their first year at university. The articles cover topics such as money management, time management, nutrition, study methods and goal setting. GRAD is an initiative by Ruda Landman and Study Trust in partnership with Van Schaik Publishers.

Additionally, we sponsored the printing and distribution of 93 000 copies of GRADnext, a spin-off from GRAD. This magazine targets graduates and career starters and contains topics that help them transition to the next phase of their life.

EMS financial literacy video lessons

We sponsored the translation of the grade 7 to 9 financial literacy lessons in the EMS curriculum into 40 captivating video lessons. These video lessons are available in both English and Afrikaans. Thuma Mina Teaching, a non-profit company and public benefit organisation, produced these video lessons with the guidance and support of the Western Cape Education Department. The EMS video lessons gained significant traction during the end-of-year exams with 114 848 views recorded during November 2022.

Capitec Foundation Whole School model beneficiaries

In the next financial year, we will deliver audience-relevant financial education to the beneficiaries of the schools that form part of the Capitec Foundation Whole School model. The beneficiaries include learners, pre-service teachers, teachers and parents of the schools.

Our contribution to transformation

We promote human rights

Our commitment to the protection and promotion of human rights is encapsulated in our SESCO-approved human rights policy.

Per this policy, we are committed to recognising and respecting all human rights in accordance with internationally accepted standards covering all elements including human trafficking, forced labour, child labour, freedom of association and the right to collective bargaining, equal remuneration and any form of discrimination. If any deviation occurs and it is in our power to do so, we will correct this behaviour. If we are unable to correct a transgression, we will disassociate from those who committed the abuse and apply the necessary influence to change their behaviour.

We are committed to the transformation of the financial sector in South Africa

Transformation is a critical driver of economic growth. To this end, we adhere to the transformation requirements and targets as set out in the amended Financial Sector Code and which actively promotes a transformed and globally competitive financial sector. It contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investments into targeted sectors of the economy.

Our most recent verification completed confirmed the bank's B-BBEE status as a Level 3 contributor.

Embedding diversity and inclusion
We continue to make progress with our diversity and inclusion initiatives and have facilitated inclusive leadership workshops with management.

Socio-economic development
We invested R52 million towards socio-economic development and consumer education.

Empowerment financing
We fulfil our empowerment financing objectives by providing funding towards affordable housing and black small and medium enterprises, consistently outperforming the sectoral allocated target.

Enterprise and supplier development
We have invested in excess of R79 million in enterprise and supplier development through Imvelo Ventures, our joint venture with Empowerment Capital.

Access to financial services
We provide access to affordable financial products and services that are easily accessible through our branch network, call centre and digital channels. Through these channels, previously disadvantaged areas continue to be the beneficiaries of our efforts to make financial services accessible to all racial groups, people living with disabilities and to areas of low-income households. We continue to see an increase in clients using remote banking services.

Summary of Capitec Bank's B-BBEE scorecard

Element	Calendar year 2022	2021
Ownership	23.73	22.65
Management control	10.77	10.47
Skills development	15.16	15.06
Preferential procurement	16.49	14.35
Socio-economic development and consumer education	5.41	5.33
Enterprise and supplier development	11.00	10.76
Empowerment financing	12.00	12.00
Access to financial services	11.75	11.75
Total points	106.31	102.37

The B-BBEE scores for the 2022 calendar year are currently in the final stages of the verification process, with a probable Level 2 contributor outcome.

Addressing climate change

Capitec understands the importance of addressing climate change and the impact on the natural environment and its ecosystem and biodiversity. We are committed to doing our part as a responsible corporate citizen to minimise any negative impacts emanating from our business activities and therefore endeavour to consider climate-related risks and opportunities as part of our core business strategy.

The board takes ultimate responsibility to ensure Capitec operates responsibly and sustainably. The SESCO is mandated by its charter to "monitor the company's activities relating to social and economic development, good corporate citizenship and the environment so as to promote the collective well-being of society, thereby facilitating the sustainable growth of the Capitec group".

In the current financial year, the following climate-related milestones were achieved:

- Published our first stand-alone climate-related financial disclosure report, which follows a similar structure to that of the Task Force on Climate-related Financial Disclosures (TCFD) framework. Our second edition is due for publication in May 2023
- Commissioned a large photovoltaic solar array, with a generation capacity of 715kWp, at our head office
- Convened our inaugural sustainability committee meeting
- Our REMCO approved executive management sustainability KPIs
- Joined the National Business Initiative
- Improved the alignment between Capitec's core business strategy and our approach to sustainability
- Invested in and expanded on Capitec's institutional knowledge and skills in the field of sustainability.

To enable a start to our journey towards science-based target-setting, in the past year we invited external industry experts to perform a quality assessment and review of our existing greenhouse gas (GHG) emissions calculations and practices and to guide us through a process to record and report metrics on a more accurate and complete basis. This formed a large area of focus in our reporting efforts during the past year. Not only did we improve and standardise our processes, we also took this opportunity to include our Business bank and Insurance divisions to align with the control approach of the GHG Protocol's corporate reporting boundaries recommendation.

This means that our 2020 and 2021 numbers have been restated, the impact is indicated in our carbon footprint monitoring below. Although our 2012 financial year was originally used as the base year for GHG emissions reporting, this has now changed to 2020.

The SESCO monitors the following activities and environmental matters:

		2023	2022 prior year	2022 restated
Electricity consumed (MWh)	We rely on Eskom for all electricity requirements	28 967	34 840	32 694
Recycled paper (kg)	Employees at our head office and regional offices are encouraged to recycle paper in special paper bins distributed on all floors, as well as special bins for other recyclable material such as glass and tins	12 368	7 624	7 838
Recycled tins (kg)		731	205	205
Recycled electronic equipment (kg)	Disposed of and recycled by accredited third parties	26 897	12 558	27 309

Carbon footprint monitoring

Carbon footprint (tCO_2e)

GHG Protocol scope	2023	2022 prior year	2022 restated
Scope 1: Direct emissions from:			
Fuel used in owned or controlled equipment	475	116	101
Fuel used in owned or controlled vehicles	16	16	19
Air-conditioning and refrigeration gas refills	859	42	727
Scope 2: Indirect emissions from purchased electricity:			
Purchased electricity – Eskom	31 284	37 627	35 310
Total Scope 1 and 2	32 634	37 801	36 157
Scope 3: Indirect emissions from:			
Business travel	2 054	1 398	1 866
Product distribution – cash-in-transit[1]	1 935	223	2 177
Paper usage	429	163	336
Total Scope 1, 2 and 3	37 052	39 585	40 536

[1] *A calculation error was made in prior years, where the number of litres of fuel was multiplied by the emissions factor, instead of the number of kilometres.*

Intensity footprint (tCO_2e)

GHG Protocol scope	2023 Per full-time employee	2023 Per m² floor space	2022 Per full-time employee	2022 Per m² floor space
Scope 1 emissions	0.09	0.00	0.06	0.00
Scope 2 emissions	2.02	0.11	2.39	0.13
Total	2.11	0.11	2.45	0.13

Methodology

We use the following:

- GHG Protocol – Corporate Accounting and Reporting Standard (revised edition)
- Emission conversion factors as published by the UK Department for Environment, Food and Rural Affairs
- The operational control approach to determine scope
- The 2020 financial year as the base year.

Assumptions

- The calculation of our carbon footprint represents Capitec and its 100%-owned and controlled subsidiaries
- Employee commute is excluded due to insufficient data.

Some limited and immaterial instances required the use of averages or estimates based on historical values due to actual data not being available or verifiable.

Target

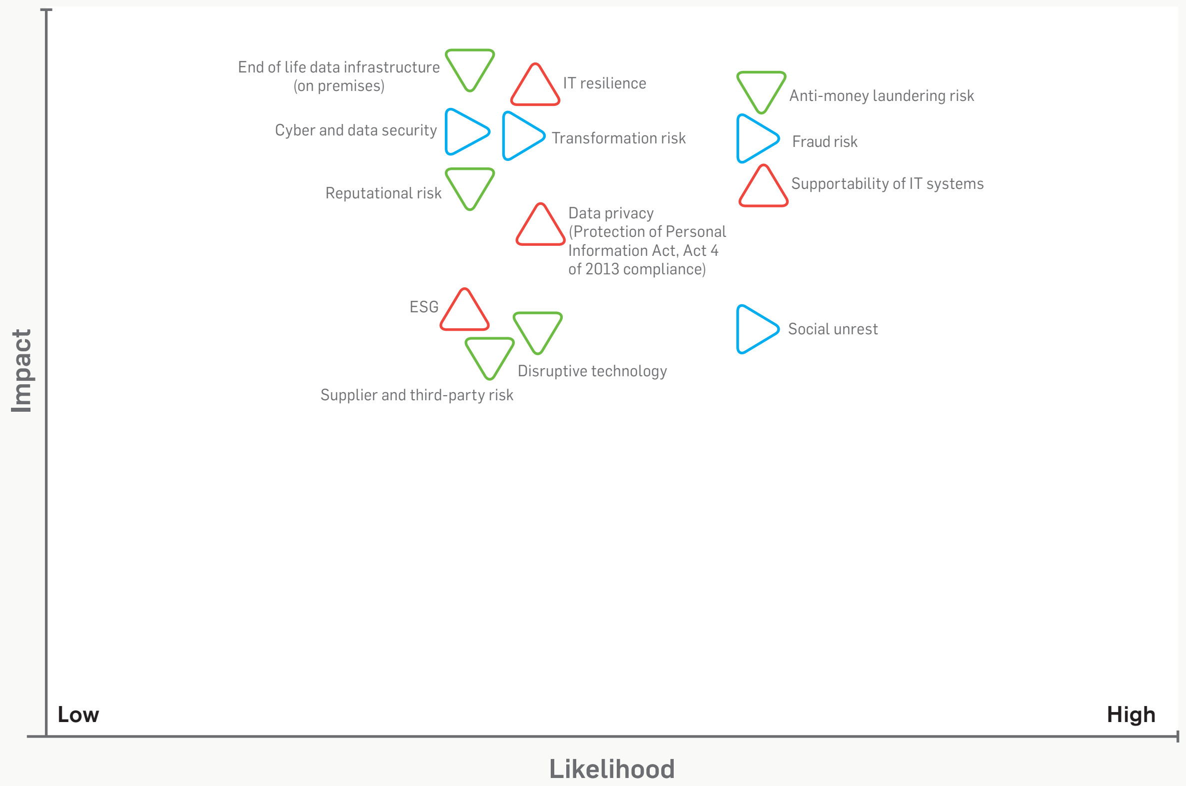
Our initial operations target was to reduce, or at least maintain, our Scope 1 and 2 emissions per full-time employee and floor space occupied from our base year (2022). Capitec is a staunch supporter of science-based targets. We are of the opinion that using only intensity-based targets is not sufficient and are therefore committed to starting our science-based target-setting journey in the next year, which will also see us draft a transition plan aligned with the goals set by the Paris Agreement.

The carbon footprint monitoring was not subject to independent third-party assurance.

Risk management report

Our risk management philosophy is based on a clear understanding of first line risk ownership, a mature risk culture and effective risk oversight to create a clear and comprehensive view of the risk landscape in the business. This enables us to proactively assess risks and opportunities and respond effectively; influence stakeholders; initiate risk management and strategic interventions; and further mature the organisational risk culture. We also focus on improving operational resilience through a range of proactive initiatives to deal with a higher frequency of unforeseen risk events.

Risk view for the year



Movement since 2022

Risk view derived from operational key risks/strategic risks:

- ***Reduced:*** *if either element (impact or likelihood) has reduced.*
- ***Neutral:*** *if both elements (impact and likelihood) remain unchanged.*
- ***Increased:*** *if either one or both elements (impact or likelihood) have increased or risk was newly added as a key risk.*

Risk management report continued

Enterprise risk management framework

Our ERM policy provides the governance structure, risk appetite and the approach for our risk management discipline and guides us to ingrain a prudent risk culture. It defines our risk management universe, structure, policies and processes. A material change to the framework over the period was the addition of insurance risk as the seventh risk category in line with the strategic direction to grow the business.

Our virtual risk management structure is supported by departmental risk business partners in the first line to improve risk maturity and support the effective functioning of the bottom-up risk management function.

We made significant improvements to our ERM system, employees were retrained and the system was installed across the group. The system better supports our first line of defence as risk owners and is fully integrated with our change management system. We continued with risk awareness campaigns building on clear video-recorded 'tone at the top' messages from the group CEO and risk executive.

The ERM function is positioned to create better visibility about potential risks and provides clarity on how risks are mitigated. This requires an integrated approach in all the group's activities to enable an effective risk management process from identification to mitigation.

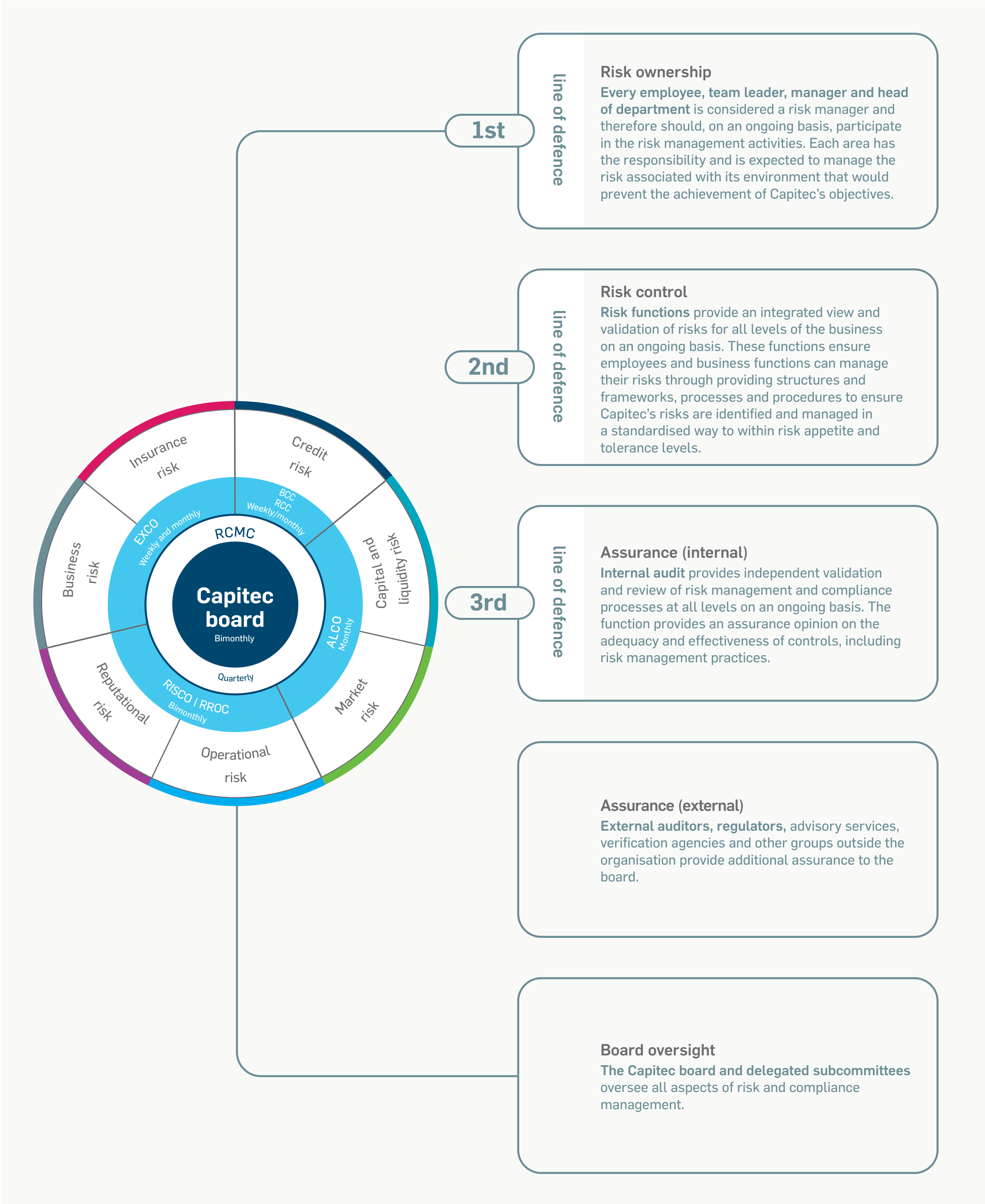
We consider both emerging risks and key risks within the risk identification framework. Emerging risks are risks that are on the horizon and may develop over an extended period. The following 2 emerging risks are being closely monitored:

- **National electricity grid failure:** Considering recent levels of electricity load shedding, the risk of a national blackout became topical. Even though several industry experts consider the likelihood of this risk to be low, the potential impact of this operational risk is widespread and very severe, affecting not just our business operations, but society at large. Capitec is aligned to industry contingency plans and will continue to improve our resilience to such an event.
- **Contagion risk from large international economies:** Various factors in the international arena have pushed global inflation rates higher on the back of soaring energy costs. Large central banks have increased interest rates to contain inflation and the SARB Monetary Policy Committee in South Africa has responded. Capitec will continue to monitor the impact of this risk on the South African economy and adjust our strategy accordingly, especially as it relates to our credit risk exposure. This and the positioning of our product and service offerings – simple, affordable, easily accessible coupled with a personalised experienced – coupled with our Live Better rewards programme, will support our clients through a tough economic cycle.

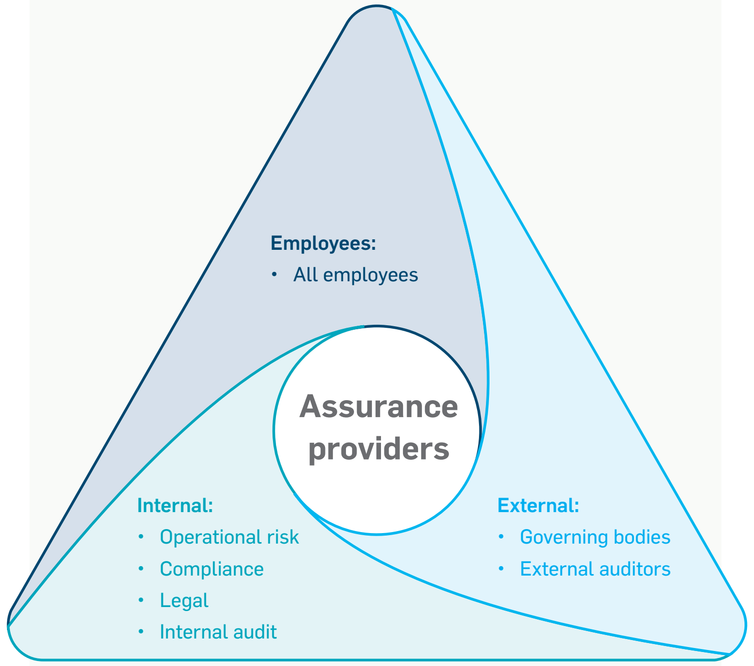
Our ERM approach supports bottom-up and top-down risk identification from both internal and external sources. This is done on an ongoing basis to ensure risks are reported as and when they emerge. This is supported by a periodic RCSA which is an integral discipline for each business area within the group.

Collaboration with internal audit helps to identify new and emerging risks and supports our combined assurance approach. The unfortunate KwaZulu-Natal and Eastern Cape floods activated our crisis management plans which proved to be effective and agile. We will continue to mature our business continuity plans to further improve our resilience to adverse risk events.

Following a lines-of-defence model ensures independence of the risk management functions positioned in the second (those who oversee risks) and third (those who provide independent assurance over risks) lines, from the business lines, being the first line of defence (those who own and manage risks).



Risk management report continued



Combined assurance supports risk management

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

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

They:

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

Risk culture

The last few years saw a much greater focus on developing and maintaining a healthy risk culture across the business through multiple risk-related training and awareness campaigns, the improvement of our ERM system and the implementation of a virtual risk management structure by positioning departmental risk business partners in the first line. In fact, making sure that risk considerations are at the heart of all business strategies, including product and service development, is now firmly embedded in our ERM strategy.

The success of our risk culture efforts is measured through our MOS as well as internal audit which performs independent risk culture assessments as part of their annual internal audit programme.

Governance of risk

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

Our risk universe now consists of 7 risk categories (following the addition of insurance risk) that are managed by the group EXCO, the RISCO, the RCC, the BCC, the ALCO and the risk and compliance team. These committees report to the RCMC, which is mandated by the Capitec board to oversee risk management of the group.

The RCMC, which comprises executive, non-executive and independent non-executive directors, oversees risk management according to a board-approved charter. The committee meets quarterly and includes senior management attendees with representation from risk, credit, compliance, treasury and internal audit. Healthy risk discussions are encouraged from a forward-looking perspective while taking past risk events into account.

Sustainability strategies developed by the SESCO are operationalised through the sustainability committee which was established during the current financial year.

Our risk management process

Our ERM system enables all employees to capture risks identified on our enterprise risk hub by following the steps detailed by the online user-friendly template. This allows the operational risk department and relevant risk owner to assess and appropriately address risks by following our iterative 5-step process to risk management.

01 Risk identification

Risks are identified by the first line of defence. They carry the primary responsibility for identifying and managing risk appropriately as primary risk owners. Identified risks are formally documented in risk registers and have designated risk owners.

RCSAs are conducted by the first line of defence and supported by the risk management function as necessary.

02 Risk evaluation

The board-approved risk matrix allows for consistency in the evaluation of risk. Risks are evaluated in terms of impact and likelihood. We consider inherent and residual (current) risks.

The risk management department supports the business by providing independent oversight and monitoring risks across the group on behalf of the board.

03 Risk treatment

Risks are accepted, transferred, mitigated or avoided based on the outcome of risk evaluation. If mitigated, then mitigation plans are tracked and monitored accordingly.

04 Risk monitoring

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

05 Risk reporting

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

Embedded RDARR principles in our data management and risk management practices

We believe that RDARR is more than a compliance requirement and that mature RDARR capabilities add value to our understanding and management of risk. At present, our risk and data management practices are well aligned and our data strategy will ensure that we continue to improve.

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

Our risk appetite and tolerance

Our risk appetite is the level of risk we are willing to accept while pursuing our objectives.

As expected from a group which includes banking activities, our highest exposure is to credit risk, where we define the risk appetite level through our pricing model and pursue a targeted ROE on all credit products. The pricing model combines the revenue and operational costs for a specific product and derives the total credit losses that can be absorbed over the term of the product to achieve our targeted ROE.

For operational risk events, we have a low-risk appetite, which means that the group will not knowingly expose itself to such risk. However, for risk events related to discrimination, we adopt a zero-tolerance attitude.

To determine risk tolerance, we consider outcome measures for our key objectives such as revenue growth, market share, client satisfaction or earnings per share. We then consider the range of outcomes above and below acceptable targets. Tolerance is measured by our MOS indicators.

Stress testing, contingency planning and business continuity

The group conducts integrated scenario-based recovery planning to prepare for contingencies. In addition to the SARB's requirements, we conduct recovery planning to ensure that the group is well prepared to withstand capital, liquidity and operational risk shocks. We are continuously improving our business continuity tool which will enable us to improve our organisational resilience during an adverse risk event.

A crisis management team is responsible for all aspects of business continuity in a crisis event. The business continuity framework and methodology are based on International Organisation for Standardisation (ISO) 22301. The framework is linked to the disaster recovery plan.

The business continuity and disaster recovery plans contain procedures to be followed should an extreme event occur. The disaster recovery and evacuation plans are performed regularly and were tested successfully during the year.

The risks we manage

- Credit risk
- Operational risk
- Market risk
- Insurance risk
- Capital and liquidity risk
- Reputational risk
- Business risk

Credit risk

The group can suffer a loss if clients fail to meet their financial obligations towards Capitec. This is defined as credit risk. Our credit risk primarily arises from Retail bank credit lending and a smaller Business bank credit book.

Retail bank

Credit risk management decisions are made against the backdrop of our purpose: to improve the financial lives of our clients and create value for all our stakeholders. Credit risk mitigation (CRM), such as credit policies, the use of data, models and risk indicators, guide these decisions according to agreed principles and tolerance levels.

The RCMC, which comprises non-executive and executive members, oversees credit risk through the RCC (comprising executive members). The RCC sets credit strategy and approves credit policy. It monitors impairments and changes in the operating environment and ensures that credit risk remains within appetite.

Indicates information that was audited.

Risk management report continued

The TREC (comprising executive members) reports on the credit risk monitoring decisions for each stage in the credit life cycle. Financial governance is applied through pricing and impairment models, regulatory reporting and the internal capital adequacy assessment process (ICAAP). The modelling technical subcommittee provides a forum for technical discussion, coordination and direction in setting modelling standards, methodologies and techniques. Integrated risk management is applied across all stages of the credit life cycle.

Acceptance risk

The granting of credit is one of the core elements of our banking activities. We offer personalised, same-day available unsecured credit at very competitive interest rates and fees. We continuously enhance our credit product offering to suit the credit requirements of our clients. Clients can access unsecured credit by taking up a term loan, access facility or credit card. We offer better terms of business on unsecured loans, lower interest rates and more credit, where the purpose is clearly determined as being for a vehicle, education or home improvements.

Capitec-branded home loans are available to our clients through our partnership with SA Home Loans. These loans are sold and underwritten by SA Home Loans. As the client has no contractual relationship with Capitec and no recourse, these loans are not recognised on Capitec's balance sheet.

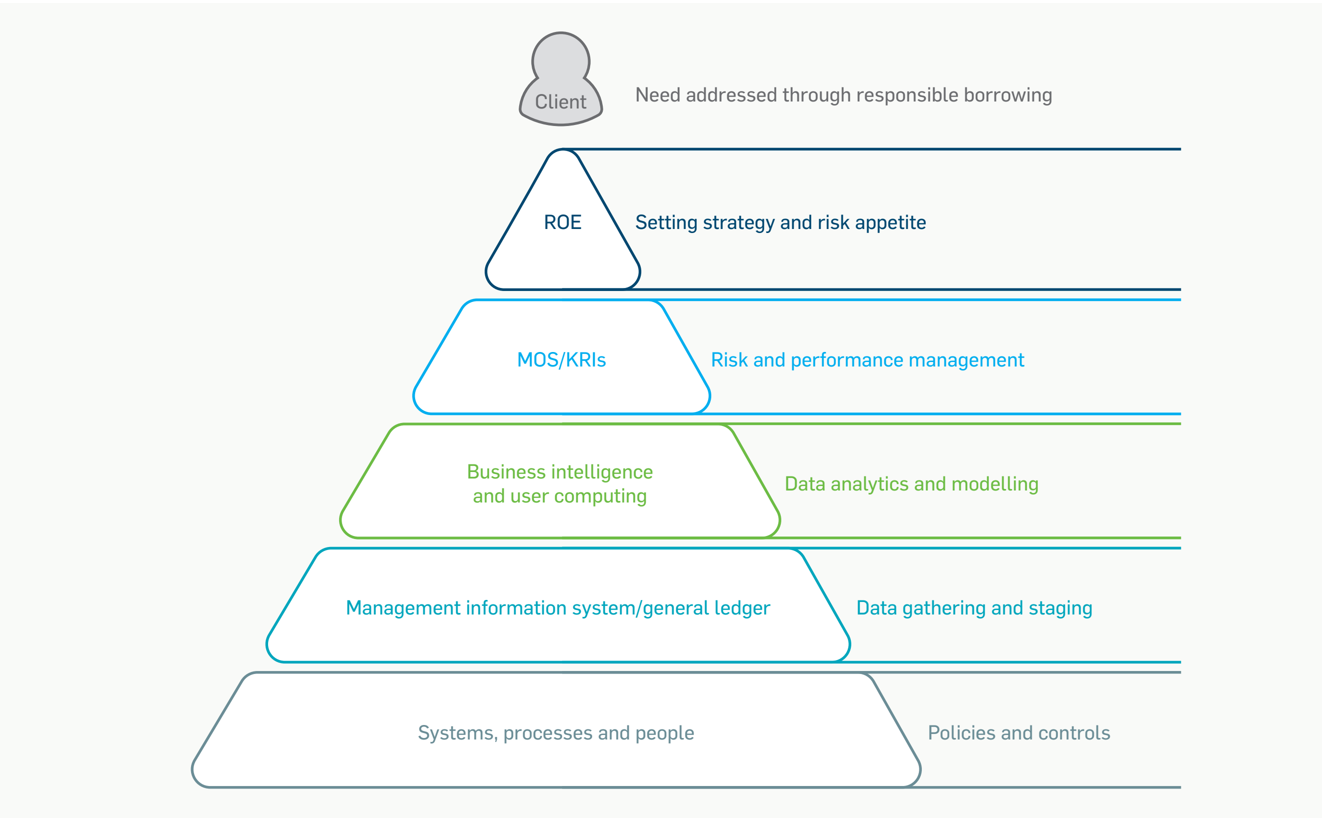
As part of the credit granting process, we ensure that our clients understand the costs, their obligations, their rights and the risks of the credit being applied for.

Our credit granting approach evolves as we improve our understanding of clients' credit requirements, behaviours and risk profiles and as we respond to changes in the economic and regulatory environment.

A sophisticated statistical model that uses internal application and client internal behavioural data, as well as external data such as credit bureau databases, is employed in the granting of credit.

Our credit granting model effectively puts the client in control of their own credit decisions. They can determine the amount that suits their needs, monthly instalments that suit their cash flow or an option that provides them with the best interest rate.

Client affordability is assessed by considering sustainable income, existing debt repayment obligations and other necessary expenses in line with regulatory requirements. In addition to this, we perform our own affordability assessment in parallel and use the more conservative outcome of the two. We regularly monitor the performance of the granting model and adapt it dynamically, where deemed necessary, for example, augmenting with machine learning techniques.



Indicates information that was audited.

Control risk

Proactive arrears management and maintaining good arrears rehabilitation rates play a vital role in fostering long-term client relationships and achieving our financial goals.

We use the regulated DebiCheck Authenticated Collections system to collect instalments from clients.

During the lifetime of the access facility and credit card, we monitor a client's credit risk and affordability and may adjust their limits accordingly. The National Credit Act, Act 34 of 2005, provides credit providers with certain mechanisms to mitigate credit risk in respect of a credit facility. These include: the right to suspend a credit facility where a client is in payment default; and the right to, by written notice, terminate a credit facility or adjust or reduce the credit limit under the credit facility. These mitigating mechanisms will, among other things, be used when a client enters one of the following states: experiences a deterioration in creditworthiness, is deceased, under debt review, sequestration or administration or is handed over to debt collectors. All credit limit increases under an existing credit facility are subject to our credit risk-granting policies and the outcome of a new credit assessment. The limit reduction strategy is applied to the total facility as opposed to only the unused facility.

Early-stage arrears are managed by a centralised function that uses an arrears segmentation strategy based on a treatment model to offer the most appropriate arrears treatment to a client.

Rescheduling is offered as a rehabilitation mechanism to arrears clients who have the propensity to rehabilitate and as a proactive mechanism to qualifying non-arrears clients. Various forms of rescheduling are available to offer suitable solutions to address the needs of our clients.

Credit loss recovery

A payment propensity model is used to determine which clients will be retained for in-house collection or be handed over to an external debt collector (EDC) for outsourced recoveries. Outsourced recoveries are performed by a panel of EDCs with different capabilities ranging from high-volume call centres to lower-volume legal collections. Debt is sold when the expectation of future payments, as estimated by an internal valuation methodology, is considered too low and where the debt approaches prescription.

Clients under debt review are monitored and regular sessions are held with major debt counsellors and payment distribution agencies. Clients are terminated from the debt review process in cases where there is poor payment performance and are then handed over to a dedicated EDC panel.

Reward risk

Reward is about profit optimisation. We target a certain reward for a given risk (our ROE target).

We aim to reward our clients for positive behaviour shifts. To qualify, clients must simply stay up-to-date with their repayment obligations.

We continue to focus on purpose-driven lending as the starting point for credit decisions and aim to offer a full device-agnostic digital end-to-end solution for all the credit requirements of our market.

We regularly assess the levels of provisions through coverage ratios to ensure we adequately provide for the risk profile of the book. For rescheduled loans, we also follow a conservative approach to provisioning based on validated rehabilitation.

Credit risk reporting

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

KRIs that do not meet targets are reported to the RCC, the RCMC and the Capitec Bank board.

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

Credit risk training

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

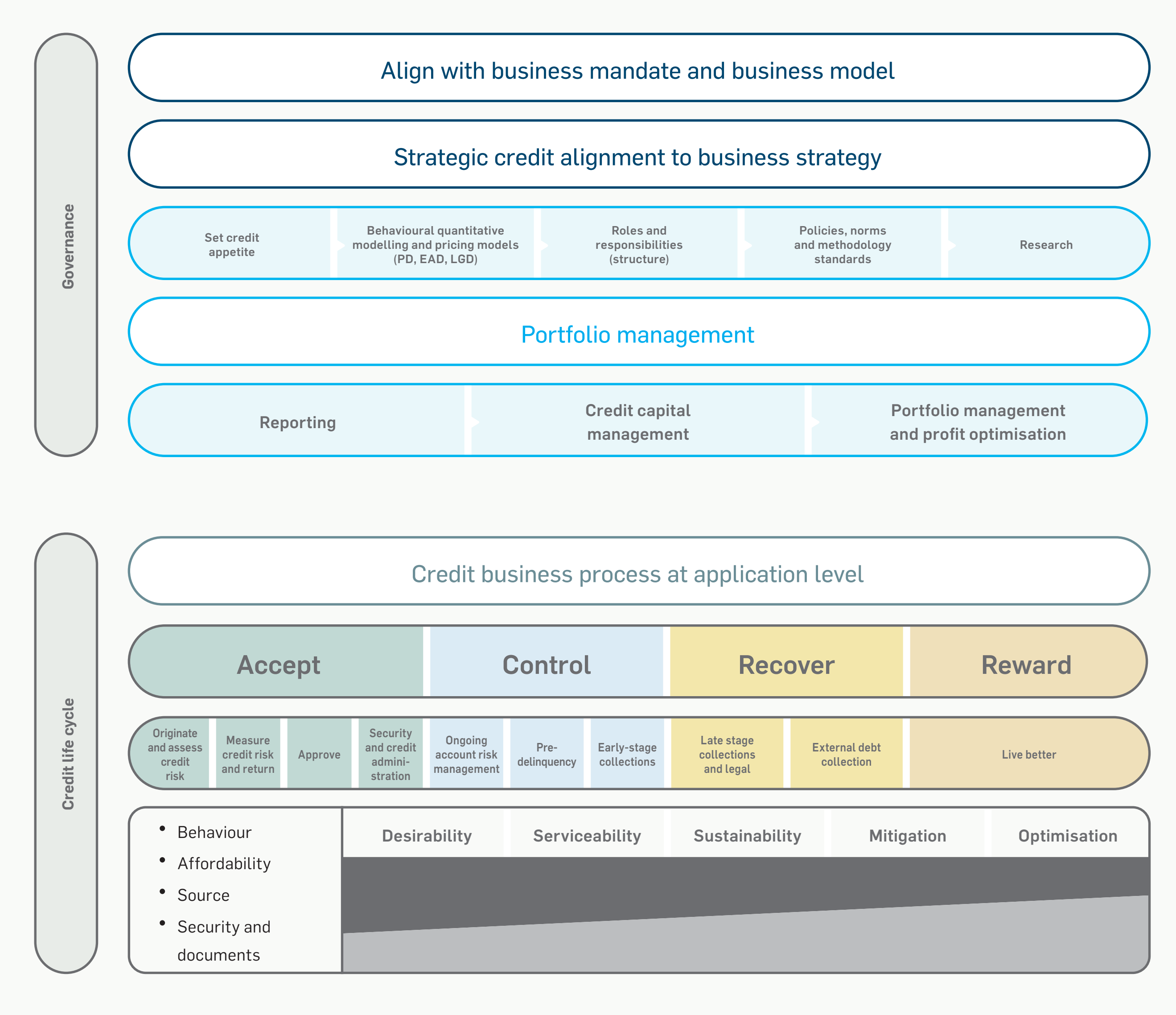
Indicates information that was audited.

Risk management report continued

Business bank

Business bank offers various credit products with the primary focus on serving all entrepreneurs.

Credit risk management is executed in accordance with the business credit framework as approved by the RCMC and demonstrated in the diagram below.



Credit risk management decisions are made with the end-to-end client credit life cycle in mind (**accept, control, recover and reward**) by considering, mitigating and managing the credit risk critical pillars of **client behaviour, affordability, source of income and security and other legal documentation**. The BCC and Capitec Business credit committee (CBCC) have been approved by the RCMC to execute on their credit risk mandate and report back quarterly.

Credit approvals are mostly intuitive with scoring only applied for unsecured products up to R500 000. The intention is to increase the limits approved through scoring in a systematic and controlled manner over time.

For intuitive credit assessments, granting is managed via a mandated approval process automated on the division's workflow system. Credit approval mandates are delegated to credit managers within predetermined rules and parameters, as approved by the RCMC.

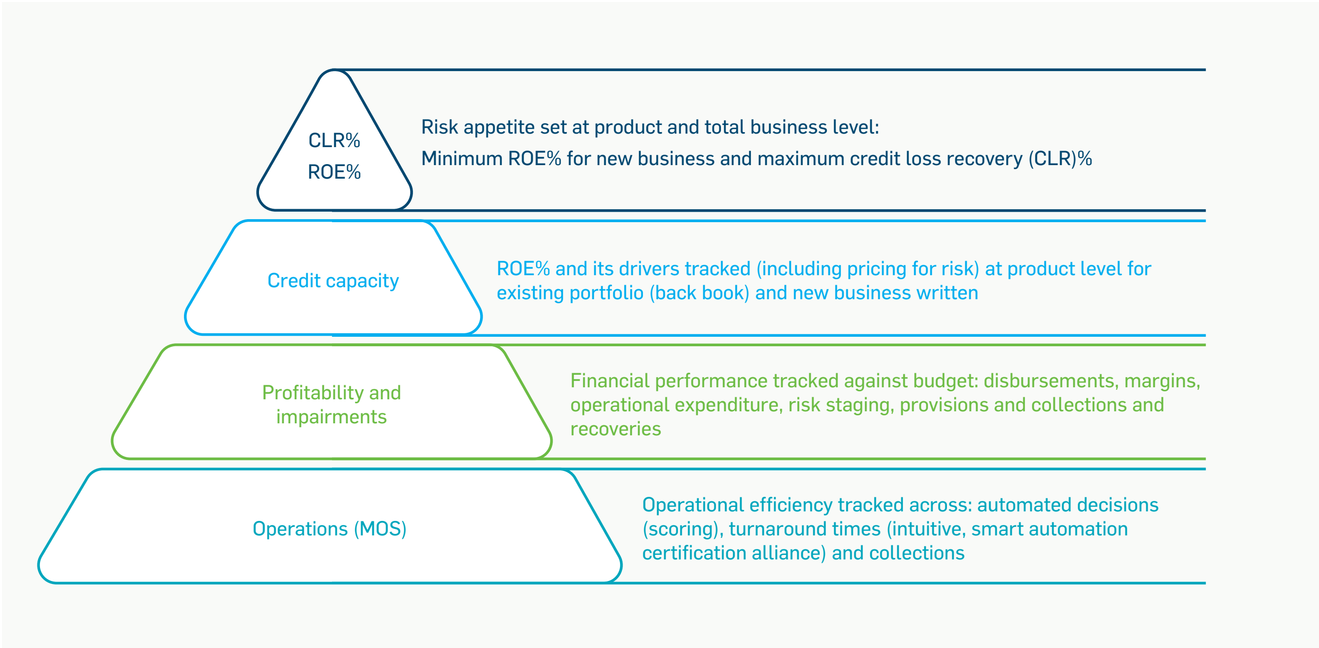
Indicates information that was audited.

Our credit risk strategy, which is contained in the credit framework and credit product policies, is approved by the CBCC and the RCMC. Credit parameters and risk appetite levels are clearly defined and reflected in the credit risk appetite statement, and are reassessed from time to time to ensure relevance and competitiveness.

A monthly review of the portfolio performance is reported to the CBCC. The same is also reported quarterly to the RCMC.

The CBCC conducts weekly reviews of new limits that fall within the committee's mandate. The CBCC also provides oversight on pricing, provisions and overall ROE. ROE targets are applied on both a product and client level.

Operations are managed weekly through the BCC and MOS. The BCC reports on excess and arrear positions, security-related matters, possible changes in risk grades, the portfolio composition and performance, concentration and provisioning. Adverse behavioural patterns, such as continual excess above approved limits and arrears on loan facilities, are also monitored weekly. The monthly CBCC reviews the overall portfolio performance and approves the provisions raised in the month. Concentration risk is also managed by the BCC and CBCC through the monitoring of large exposure, PDs, LGDs and provisions.



Counterparty credit risk

The group has limited counterparty credit risk. Our exposure is limited to hedges entered into to mitigate interest rate and currency risk as a result of wholesale funding activities as well as operational and capital expenditure denominated in foreign currency.

These counterparties are all explicitly approved by the RCMC. These instruments are all held to maturity and not marked-to-market.

Read more about counterparty, investment and other credit risks in note 33 to the audited financial statements.

Investment credit risk

We have a low-risk appetite regarding the investment of surplus cash. Surplus cash is invested in fixed income instruments with the South African National Treasury, high-quality banks and investments in money market funds where the underlying assets are the South African Sovereign and high-quality banks.

Indicates information that was audited.

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

The following table summarises the group's credit risk exposures, both pre- and post CCF and CRM, together with the resulting credit risk-weighted assets (RWA) and RWA density. The risk weighting per asset class is disclosed in the Pillar 3 report.

	Exposures pre-CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes R'000	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
2023						
Sovereigns and their central banks	61 164 088	—	61 164 088	—	—	—
Banks[1]	12 605 186	2 000	8 067 686	—	3 646 916	45
Corporates[1]	3 039 542	1 095 045	2 877 837	169 353	2 837 666	93
Regulatory retail portfolios	69 550 046	16 781 426	69 543 703	116 889	53 212 415	76
Secured by residential property	3 629 927	160 934	3 628 351	132 845	1 417 281	38
Secured by commercial real estate	3 818 160	309 023	3 745 464	227 159	3 972 623	100
Past-due loans[2]	6 536 686	2 449	6 536 686	409	4 739 571	73
Total	160 343 635	18 350 877	155 563 815	646 655	69 826 472	45
2022						
Sovereigns and their central banks	63 048 447	—	63 048 447	—	—	—
Banks[1]	13 736 024	216	8 574 932	43	1 945 115	23
Corporates[1]	3 438 547	1 178 138	2 821 324	251 891	2 752 682	90
Regulatory retail portfolios	61 307 208	12 231 373	61 307 208	35 091	46 830 709	76
Secured by residential property	3 221 333	109 762	3 213 436	93 984	1 295 261	39
Secured by commercial real estate	3 049 019	140 839	3 049 019	109 481	3 158 500	100
Past-due loans[2]	4 868 177	74	4 868 177	5	3 598 820	74
Total	152 668 755	13 660 402	146 882 543	490 495	59 581 087	40

(1) Resale agreements with banks and corporate entities are included.

(2) Past-due loans include retail loans which are in arrears by 1 day or longer and business loans which are in arrears by more than 90 days.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on people and systems to operate effectively and efficiently. We further focus on operational resilience in line with the BCBS Principles for Operational Resilience that come into effect in 2023.

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

Operational risk consists of the following categories:

- Financial crime risk
- IT risk
- Information and data risk
- Compliance and legal risk
- Market conduct risk
- Model risk
- Supplier and third-party risk
- Sustainability risk
- Operational resilience.

The operational risk function operates across the group. We follow the updated BCBS Principles for the Sound Management of Operational Risk. Further alignment will be achieved when the newly published BCBS Principles for Operational Resilience come into effect in June 2023.

We make informed decisions about operational risk, guided by the ERM framework and the supporting risk and oversight committees. We believe in collaborative and cohesive relationships within the group to encourage transparency and trust, and to ensure consistent risk management practices. We encourage healthy risk discussions in a psychologically safe environment at all levels of our business. This creates a risk culture, which is essential to identify, manage and mitigate risks that pose a threat to the business. The improvements made to the risk management system in the past year aim to improve the efficiency and accuracy of risk capturing and monitoring, while improving access and visibility of the risk management system.

The risk management system is also fully integrated with the enterprise risk register which prevents duplication and improves efficiency. Training was done across the group and is supported by ongoing reporting and notifications.

We support the discipline of a thorough review of risks on an annual basis in the first line of defence. This helps us to reconsider known issues and revisit the entire risk landscape and its potential impact on our operations. We updated our templates for the RCSA and expanded the extent of second line oversight and support. Operational risk will continue to focus on improving the quality of RCSAs and related systems and processes.

A comprehensive insurance programme covers operational risk losses such as fraud, theft, professional liability claims and damage to physical assets. The opportunity cost of lost revenue is not covered and will be reviewed in due course. We were able to claim all physical damages suffered during the 2021 riots and continue to actively monitor our risk exposure.

Operational risk works with the wider risk division, including internal audit under the combined assurance initiative, to ensure we have a balanced view of risks and controls.

Financial crime risk

We are pursuing a single strategy, which seeks to leverage the investments made in the anti-money laundering and fraud environments. Such a strategy seeks to address the risk of financial crime through preventative, detective and responsive initiatives, while balancing the impact of financial crime on client experience. We are significantly investing in financial crime technology solutions that leverage data science to scale our efforts and drive efficacy and efficiency of our prevention and detection mechanisms.

We are also continuing to focus on bank safety campaigns for our clients to equip them in identifying the red flags of fraud and to avoid becoming victims of fraud.

A zero-tolerance approach is undertaken against all financial crime activities, including bribery and corruption, and we report all relevant matters to law enforcement and regulatory authorities.

Risk management report continued

IT risk

We pursue innovative technology applications and solutions to provide clients with simplified banking. In driving this, we have to protect clients' information by applying and developing controls and ensuring compliance. We have a mature information security approach that consistently monitors and remediates areas of concern where our clients' and company information could be at risk.

IT governance is implemented according to the Capitec IT governance policy. The policy is built on a strong framework that incorporates principles and controls defined in international standards such as the Control Objectives for Information and Related Technologies, the Information Security Forum (ISF) Standard of Good Practice and ISO 25999 and 27001/2.

Our strategy demands that we focus on clients. Therefore, our IT strategy is created, approved, reviewed and implemented to align with the business strategy. IT initiatives are aligned with business objectives. Weekly EXCO meetings and formal IT prioritisation meetings provide platforms to discuss strategic IT matters and initiatives and align priorities.

The IT governance framework defines the IT organisational structure and the policies and procedures to facilitate good governance and compliance practices in IT. IT governance matters and IT-related risks and issues are discussed in the IT governance, risk and compliance committee, and escalated to the RISCO committee and the RCMC, as needed. These committees ensure that situations that could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed at a senior management level. Important issues are handled with the appropriate level of urgency and focus. Our operational risk management and IT governance, risk and compliance teams collaborate closely to ensure alignment and effective risk management.

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

IT security governance and risk management

Regular risk and vulnerability assessments, including simulated hacking attacks, are performed by both internal and external teams. In addition, IT security and cyber controls are reviewed annually by internal audit and/or external service providers.

Our ongoing security awareness campaign includes a variety of practical and business-relevant security topics, and training on security measures is provided to all Capitec employees.

IT security and cyber risks are monitored and reported through the divisional IT risk forums and the IT governance, risk and compliance committee. Material IT-related risk matters and issues are escalated to the RISCO and the RCMC.

Information security management system (ISMS)

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

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

Cybersecurity

We have a dedicated team focused solely on protection, detection and response to cybersecurity. We regularly test our IT controls for weaknesses to improve our security and response times using a combination of internal and external resources. We are involved in industry initiatives such as the South African Banking Risk Information Centre to establish and embed well-coordinated security response mechanisms in the event of major security threats to the banking industry or individual banks.

Information and data risk

Data drives our business model and operations. Good data practices ensure compliance and the safeguarding of our information assets and form the foundation of our competitive advantage.

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

We value the privacy of our clients, employees and other stakeholders. We process personal data responsibly, securely, lawfully and in accordance with our duty of confidentiality towards clients. We take a collaborative approach to data privacy and have established a close working relationship between business development, operational areas, risk management and the data privacy management team. We continuously monitor local and international developments in data protection laws and standards and incorporate relevant practices where appropriate. Capitec's manual for the Promotion of Access to Information Act, Act 2 of 2000, was also updated and is available in Afrikaans, English, isiXhosa, isiZulu, Sesotho and Tshivenda via the Privacy Centre on our website.

Compliance risk

Capitec acknowledges that it provides services such as banking and insurance, which form the cornerstone of South Africa's financial system, and has a responsibility to conduct business with a high degree of honesty and integrity.

As a result, Capitec is committed to conducting all business activities in accordance with regulatory requirements to ensure long-term sustainability.

Compliance risk is when the group is at risk from not achieving its strategic objectives due to events and circumstances that lead to material loss, reputational damage or regulatory sanctions stemming from a failure to act in accordance with regulatory requirements, internal policies and best practice.

Dedicated compliance functions across the group are tasked with managing compliance risks, as guided by the compliance framework, by identifying, assessing and monitoring the statutory and regulatory risks faced by the group, and to advise and report to senior management and the board on these risks.

No policy-related breaches were identified during the current reporting cycle. These specifically include the areas of:

- corruption or bribery
- discrimination
- conflicts of interest
- money laundering or insider trading.

As good corporate governance and business practice, should any breaches have been identified, we would have disclosed the number thereof per category above.

Compliance services

The compliance function is responsible for performing the following key activities across the group:

- Analysing of the domestic legislative landscape to inform the business of the potential impact of new and current legislation
- Interpreting regulatory requirements for the business and advising on how they can be embedded in the current business processes
- Supporting the business in the implementation of projects/initiatives which concern regulatory compliance
- Monitoring the control implementation of projects/ initiatives which concern regulatory compliance.
- Reporting to regulators and supervisors on the state and level of compliance within the group and ensuring relationships are maintained.

Compliance risk is managed within the group by the compliance function by way of empowering employees to manage compliance risks, enhancing a compliance culture, providing independent and combined assurance on compliance risk management practices and overseeing the remediation of non-compliance.

The group received no material regulatory penalties, sanctions or fines for contraventions of non-compliance with statutory obligations during the financial year under review.

Key compliance strategic priorities

The compliance function has undertaken various strategic projects for the financial year under review to mature, maintain and further embed a leading, value-adding, risk-mature, business-conscious compliance function across the group. We focused on the following initiatives to enable effective compliance risk management across the group:

- Enhanced risk identification, measurement and remediation through business and stakeholder partnerships, participating in strategic projects and the administration of the enterprise-wide compliance management system
- An enhanced risk culture through participation in the risk awareness campaign and the risk management forum.
- People development through cross-skilling and specialist focus areas
- Efficiency gains through collaboration with business stakeholders
- Process alignment between all divisions.

Key legislative developments

Compliance provided advice and recommendations to business units and management as significant developments occurred across the group and the regulatory landscape.

Several developments in regulatory reforms were published during the financial year under review. These developments necessitated a review of existing frameworks, policies and procedures resulting in changes made to policies and controls to enhance compliance. The most notable developments related to the themes on the next page.

Risk management report continued

Market conduct

The Financial Sector Conduct Authority (FSCA) is driving various amendments to existing regulatory instruments and new instruments as part of its regulation plan within the next 3 years. The focus areas of the regulation plan set out planned work and changes on the regulatory framework on:

- market conduct
- financial markets (express focus on integrity and efficiency)
- a broad scope of cross-cutting sector developments and themes.

These changes will bring about new compliance obligations or, alternatively, will require appropriate change management to ensure continued compliance with existing instruments.

Financial sector

The Financial Sector Laws Amendment Act introduced extensive amendments to the Financial Sector Regulation Act, Act 9 of 2017, and Banks Act to make provision for financial institutions and introduced the Deposit Insurance Scheme and structures.

Financial crime

The Mutual Evaluation Report on South Africa highlighted various deficiencies and shortcomings in South Africa's regulatory framework governing the management of money laundering, terrorist financing and proliferation financing risks. In response to this, various legislative instruments have been issued to remediate the shortcomings identified in the report. These included updates to the Financial Intelligence Centre Act, Act 38 of 2001, as well as other key legislative instruments in order to provide guidance to accountable institutions on the implementation of a risk-based approach to managing the risk posed by money laundering, terrorist financing and proliferation financing. Capitec established cross-functional working groups between compliance, anti-money laundering, IT and the relevant business departments to proactively and efficiently manage these regulatory changes.

ESG framework

ESG, as an emerging risk, has become a topical item for discussion within the risk realm due to public and regulatory interest in how companies are managing and addressing related risks and opportunities. In the past year, the compliance function supported the operational risk department with several group-wide ESG initiatives which included an overhaul of the group's anti-bribery and corruption risk management framework and the ethics management framework.

Occupational health and safety (OHS)

Capitec is committed to provide and maintain a work environment that is, as far as reasonably practicable, safe and without risk to the health and safety of our employees and any other visitors or members of the public who come onto our business premises.

We maintain a health and safety hub on the company intranet where all employees have access to among other information, our OHS policy, the head and regional offices' emergency contact numbers and designated health and safety representatives, safety awareness guidelines and instructions to follow in handling any medical incidents at a Capitec Business premises.

Our OHS committee is made up of elected and appointed health and safety representatives and selected management to assist the EXCO in fulfilling its responsibilities regarding health and safety matters.

The OHS committee is primarily responsible for:

- reviewing with management whether OHS policies are being effectively implemented
- reviewing and recommending changes to existing OHS policies and programmes
- reporting on the nature and extent of compliance or any non-compliance with applicable legislation and industry standards.

Meeting at least on a quarterly basis, standard agenda items include, but are not limited to, any reported injuries on duty detailing investigation findings and corrective actions taken. Minutes of the meetings are maintained and available for review by the EXCO on request.

At management level, our regional managers have been appropriately trained and are responsible for annual retail branch risk assessments. The head and regional offices' risk assessments are also performed annually by the duly elected, appointed and trained health and safety representatives.

Feedback on risk assessments and any injuries on duty, including investigation findings and corrective actions taken, are reported to the SESCO at least twice a year.

Market conduct risk

The market conduct forum is Capitec's governance meeting for market conduct and oversight and reports into the RISCO. We are guided by the Treating Customers Fairly (TCF) principles as well as Conduct Standard 3 of 2020 for Banks as issued by the FSCA under the Financial Sector Regulation Act, Act 9 of 2017.

Forum members represent all relevant business areas and the forum is chaired by the head: operational risk. Quarterly regulatory engagements are scheduled with the FSCA which provides regulatory oversight for market conduct.

Model risk

Model risk management provides model risk oversight through relevant policies, procedures, governance, and modelling standards across the modelling community in the group. This ensures models used are reliable and accurately reflect underlying data and assumptions, while also minimising the potential impact of errors or biases. We have had a substantial increase in the number of models in operation and the complexity thereof as the use of machine learning models increases. Models are subject to independent review and approval by a technical committee consisting of subject matter experts in the group.

Supplier and third-party risk

Supplier and third-party risk management is an important risk discipline considering our level of reliance on them in providing our products and services. It is also a focus area under the BCBS Principles for Operational Resilience which come into effect in 2023. The supplier risk committee oversees the activity and provides direction and strategic input to ensure that risks are promptly identified and mitigated. The group is in the process of updating its supplier and third-party risk management system.

Sustainability risk

We acknowledge the importance of sustainability and the focus on ESG risks. We produce a stand-alone climate-related financial disclosure report, the first of which was published in May 2022. The report generally follows the TCFD framework which elaborates on climate-related risk management. We established a sustainability committee which reports to the SESCO.

Our approach is to ensure that sustainability risk remains embedded in our core business strategy as opposed to a stand-alone strategy. We participated in S&P Global's annual corporate sustainability assessment and have committed to a strategy to further improve our ESG-related disclosures and rating.

We participated in the S&P Global ESG rating since 2021. Please refer to our stand-alone climate-related financial disclosure report, which is available on our website, for more detail.

Operational resilience

The SARB published a directive in late 2021 requiring among other items, all banks comply with the BCBS Principles for Operational Resilience by June 2023. We deem operational resilience as an important pillar of operational risk as it speaks to the ability to deliver critical operations during times of disruption. This ability enables the group to identify and protect us from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events to minimise their impact on the delivery of critical operations.

Risk management report continued

Market risk

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

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

Market risk consists of the following categories:
- Interest rate risk
- Equity and currency risk
- Hedging risk.

Interest rate risk

There is inherent interest rate risk in the bank due to issuing fixed- and variable-rate loans which are funded by fixed- and variable-rate deposits and equity. Our equity as a proportion of the total balance sheet is significant. The overall emphasis of the bank is to eliminate interest rate risk where possible.

Retail bank

The Retail bank has traditionally had a large percentage of loans at fixed rates, with minimal exposure to floating-rate loans. This mix is changing with the increased credit card book and the switch from term loans to the access facility, which are both at floating rates, from traditional fixed-rate term loans. The natural hedge that occurred historically by funding fixed-rate loans with fixed-rate liabilities is therefore evolving.

Business bank

The Business bank has a predominance of floating-rate assets which are primarily funded by floating-rate liabilities providing a natural hedge.

Impact of the liquidity strategy

The group matches long-term loans with long-term funding, which reduces timing mismatches. Call deposits are used to a limited extent to fund any loans. The majority of floating-rate deposits are matched in a floating-rate investment portfolio.

Effect of shareholders' equity

We have a natural mismatch position when the group has more rate-sensitive assets than rate-sensitive liabilities. This mismatch is due primarily to a high proportion of ordinary shareholders' equity, a consequence of our conservative leveraging. Traditionally, equity is considered as non-rate sensitive. We target a fixed ROE.

Managing interest rate risk

Capitec Bank's asset and liability management (ALM) policy precludes taking speculative or trading positions on the banking book. In general, the ALCO aims to match the fixed- or floating-rate nature of funding with the fixed- and floating-rate elements of the loan book and surplus cash positions. To manage mismatches, long-term floating-rate liabilities may be swapped to fixed rates.

Our appetite for interest rate risk is managed at a group executive level by our treasury department and reported monthly to the ALCO. Our monthly reporting indicates the variance to the projected 12-month income statement forecast. Board governance is provided through the RCMC on a quarterly basis.

We assess the impact of rate changes on the net present value of the retail loan book and related funding, and the potential impact of an open position on current and future profitability.

The Insurance business' ALM policy requires that investment of assets backs policyholder liabilities by considering the size, uncertainty, expected timing, tax position and currency of liability cash flows.

Equity and currency risk

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

Equity risk

The group has limited exposure to equity risk as it does not deal in equity instruments.

Operational currency risk

Currency risk has a minimal impact on our operations as almost all of the operations are in South Africa. The procurement of goods and services for the operation of the bank results in limited exposure to currency fluctuations. When necessary, these transactions are hedged by means of forward exchange contracts.

Trading currency risk

Foreign exchange transactions concluded on behalf of clients are automatically hedged, resulting in the bank having limited open currency positions due to the purchase and sale of foreign currency. These positions are well below the limits allowed by the SARB.

Hedging risk

To reduce market risk and the impact of currency volatility, we use hedging mechanisms. The ALCO, however, only allows the following derivatives to be used for hedging risk in the banking book:
- Interest rate swaps are used to convert floating-rate to fixed-rate funding to match the fixed-rate nature of certain assets and funding
- Forward foreign exchange contracts are used to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities.

Any hedges cover the complete exposure on the specific underlying transaction.

Insurance risk

Insurance risk is the risk of losses due to experience being different from the assumptions used in pricing or reserving such as severity, frequency, trend, volatility or level of occurrence rates.

Classification

Insurance agreements are defined as those agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the issuer of the insurance agreement to pay significant additional benefits than envisaged at the inception of the agreement. Such agreements remain designated as insurance agreements until all rights and obligations are extinguished or expire.

The group has 2 third-party cell captive agreements where Capitec Ins, a wholly-owned subsidiary of Capitec, is the sole owner of the cell captives, which are underwritten by 2 different licensed cell captive insurers. The cell captive agreements enable the group to provide credit life and funeral policies to its clients.

The group can purchase reinsurance through its cell captive facility as part of its risk mitigation programme. Reinsurance transfers insurance risk away from the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserving for claims. The group carries no insurance risk on the Capitec funeral plan because it is fully reinsured. It does not, however, reinsure the credit life policies and is therefore exposed to insurance risk on this book. The group's insurance risk on the credit life book is the risk that there will be insufficient capital available to honour the claims made by policyholders in the cell captive arrangement. The group is obligated to maintain the solvency of the cell captive structure and ensure that there is sufficient capital to cater for a range of 'shock' events that could occur.

Indicates information that was audited.

Indicates information that was audited.

Risk management report continued

The group has provided capital to the third-party cell captive structure which allows the group to benefit from the ring-fenced insurance business. From the group's perspective, the captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurers. The group also earns interest on the capital and retained profits in the cell captive. The insurance risk associated with the investment in the cell captive arrangement is disclosed as a non-current asset in the statement of financial position as 'net insurance receivable'.

Capitec obtained a licence to conduct life insurance business during the current financial year. The licence was issued to Capitec Life which is a wholly-owned subsidiary of Capitec Insurance Holdings which in turn, is a wholly-owned subsidiary of Capitec. The group intends to start writing insurance business, on its own licence, from the start of the upcoming financial year.

Credit life product types

When term loan clients are granted credit for 7 months or longer, the group requires the client to have credit life insurance in place to cover death, permanent disability, temporary disability and unemployment or the inability to earn income other than as a result of disability. The same requirement is applicable for credit card and access facility clients (except for certain clients where credit life insurance is voluntary).

Loan clients can provide the group with an existing credit life policy (either internal or external), enter into a new policy with the group or take out a similar credit life policy with another insurer.

Risk governance

The audit, risk and capital management committee (ARCMC) is responsible for the following in the insurance operations:

- Providing oversight of the product types
- Financial resource management
- Approving new products.

Responsibility for the pricing of the insurance portfolio lies with the ALCO.

The licensed cell captive insurers have a robust corporate governance and regulatory framework in place to manage insurance risk. The cell captive insurers have the following board and control functions in place that govern and challenge inputs, models and the results of valuations:

- Audit committee and appropriate risk committee
- Risk management control function
- Internal audit control function
- Compliance control function
- Actuarial control function.

The licensed cell captive insurers perform the actuarial function which includes (but is not limited to) premium rating, capital and reserving requirements and risk mitigating strategies.

Management of the group includes actively monitoring and reviewing the work performed by the licensed cell captive insurer. Items such as monthly results, premium turnover, claims experience, solvency and insurance agreement liability calculations are discussed and debated in detail to ensure that they are reasonable and align with the group's risk appetite. Any material changes to calculations and/or identified risks are summarised and presented to the RCMC.

Capitec Life has the following board and management committees, as well as control functions, in place to govern the insurance activities in future:

- Board committee: ARCMC
- Management committees: insurance executive committee, the ALCO, RISCO and product approval and conduct committee
- Risk management control function
- Internal audit control function
- Compliance control function
- Actuarial control function.

General risk management

As the group's insurance portfolio is currently housed in a third-party cell captive, the group is jointly responsible for the insurance risk which is managed in 2 separate processes:

- Product design and pricing of the Insurance business
- Management of the in-force book.

Product design and pricing of the Insurance business

The group ensures that the insurance portfolio is priced correctly and understood through rigorous and proactive risk management processes that ensure sound product design and accurate pricing. These include:

- independent model validation
- challenging assumptions, methodologies and results
- debating and challenging product relevance, the target market, market competitiveness and treating clients fairly
- identifying potential risk
- thoroughly reviewing policy terms and conditions.

Maintaining the appropriate reinsurance cover for the funeral plan business is an important component of the pricing and product design to keep the insurance risk within appetite.

Management of the in-force book

The licensed cell captive insurer assesses and manages the insurance risk relating to the in-force book as follows:

- Monitoring and reporting claims experience by considering incidence rates and claims ratios
- The actuarial valuation process involves the long-term projection of expected future cash flows and setting up insurance liabilities
- Experience investigations are performed annually to understand the actual experience compared to the basis used in valuations and pricing. These investigations are signed off by the head of the actuarial function. Where required, changes are made to pricing and product design
- Asset liability management is performed to ensure that asset-backing insurance liabilities are appropriate and liquid
- Stress and scenario analyses are performed which provide insight into the insurance risk and future capital position.

Detailed risk management per risk type

Mortality (death) risk

This is the risk that mortality rates and the associated cash flows are different from those assumed and is managed as follows:

- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

Morbidity (disability) risk

This is the risk that morbidity rates and the associated cash flows are different from those assumed and is managed as follows:

- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

Retrenchment risk

This is the risk that retrenchment rates and the associated cash flows are different from those assumed and is managed as follows:

- Identification of retrenchment risk is controlled by the bank's credit scoring
- Regular monitoring of exposure by industry and employer and feedback into risk selection
- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

Catastrophe risk

This is the risk that stems from extreme or irregular claims experience contingent on mortality, morbidity or retrenchment events of which the effects are not expected and is managed as follows:

- Monitoring of trends and experience of the insurance portfolio.

Lapse risk

This is the risk that lapse rates and the associated cash flows are different from those assumed, as well as the risk of mass lapse, and is managed as follows:

- Collection strategies are regularly reviewed to ensure they remain optimal
- Changes to product lapse rules are made where more lenient lapse rules can benefit the client and group.

Expense risk

This is the risk that expenses and/or expense inflation are different from that assumed in pricing and valuations. The group has rigorous budgeting processes in place to manage the risk.

Indicates information that was audited.

Risk management report continued

Capital and liquidity risk

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

Capital risk management

The ALCO oversees the activities of treasury, which operates in terms of an approved ALM policy. The ALCO assesses capital adequacy monthly and manages it daily as necessary. This includes a historical and future capital positioning review and a quarterly report to the RCMC. Capital adequacy is reported to the PA monthly in line with the requirements of the regulations.

Risk management and capital management are interdependent. We hold risk capital as a reserve in line with regulatory requirements. This allows for all residual risks that remain after cost-effective risk management techniques, impairment provisioning and risk mitigation have been applied. Residual risk exists as there is potential for unexpected losses and volatility in expected future losses that are not captured in terms of IFRS.

Read more about capital and liquidity management in the Report from the Chief Financial Officer on page 22, note 33 to the audited financial statements and from page 98 in the risk management report.

Capital management

Our objectives when managing capital are to ensure that:

- the return on capital targets is achieved through efficient capital management
- adequate capital is available to support the growth of the business
- there is sufficient risk capital with a capital buffer for unexpected losses to protect depositors and shareholders, and to ensure sustainability through the business cycle
- the group complies with the Banks Act and regulations.

The 2 principles counterbalance each other by aiming to maximise returns for shareholders, but not at the expense of other stakeholders. This approach prevents the adoption of high-risk/high-reward strategies. It also safeguards long-term sustainability while maintaining satisfactory returns for all stakeholders. Implicit in this approach is compliance with the prudential requirements of the regulations and maintaining a strong capital base to support the development and growth of the business.

We are a systemically important financial institution (SIFI) as designated by the PA in the 2020 financial year. SIFIs may be required to hold additional capital as required by the PA.

Capital to manage risk and growth

We retain capital for risk in the existing portfolio and to support risk arising from planned growth. Supply and demand factors impact capital adequacy.

Supply-side risk

Supply-side risk relates to procuring appropriate capital resources at appropriate pricing and times to:

- keep ahead of any changes in the technical calculation of capital adequacy
- maintain capital buffers at the stipulated requirements of regulators
- meet shareholders' expectations.

Demand-side risk

Demand-side risk involves monitoring the growth in RWA. This, in turn, drives the growth in regulatory and our own internal capital requirements.

The group has an ICAAP which drives its position on capital management on an ongoing basis. The ICAAP reviews our historical, current and future capital positioning from an internal and a regulatory capital perspective.

Both Capitec and Capitec Bank have maintained healthy buffers above the minimum capital adequacy requirement.

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

	GROUP		BANK	
R'000	2023	2022	2023	2022
Regulatory capital adequacy				
Composition of qualifying regulatory capital				
Ordinary share capital[1]	5 406 109	5 649 020	6 105 981	6 105 981
Foreign currency translation reserve	77 610	31 438	—	—
Other reserves	491 982	474 779	(404)	(17 607)
Accumulated profit	33 060 311	29 559 311	28 548 099	26 146 944
Total ordinary shareholder equity	39 036 012	35 714 548	34 653 676	32 235 318
Regulatory adjustments				
Intangible assets, deferred tax assets excluding temporary differences and goodwill in terms of IFRS[8]	(1 390 218)	(1 329 617)	(1 378 739)	(1 306 500)
Other regulatory adjustments	—	(3 403)	(123 663)	—
Unappropriated profit	(2 607 727)	(3 191 782)	(1 283 835)	(2 282 680)
Common equity tier 1 capital (CET1)	35 038 067	31 189 746	31 867 439	28 646 138
Issued preference share capital[1]	48 924	51 167	48 924	51 167
Phase-out – non-loss-absorbent[2][7]	(48 924)	(51 167)	(48 924)	(51 167)
Additional tier 1 capital (AT1)	—	—	—	—
Tier 1 capital (T1)	35 038 067	31 189 746	31 867 439	28 646 138
Unidentified impairments	872 831	749 377	875 387	749 999
Tier 2 capital (T2)	872 831	749 377	875 387	749 999
Total qualifying regulatory capital	35 910 898	31 939 123	32 742 826	29 396 137
CET1 (%)	33.6	35.4	31.9	33.0
AT1 (%)	—	—	—	—
T1 (%)	33.6	35.4	31.9	33.0
T2 (%)	0.8	0.9	0.9	0.9
Total capital adequacy (%)[3]	34.4	36.3	32.8	33.9
Composition of required regulatory capital				
Credit risk – on-balance sheet	8 317 193	7 102 134	8 341 729	7 152 392
Credit risk – off-balance sheet	63 709	48 570	63 709	48 570
Total credit risk	8 380 902	7 150 704	8 405 438	7 200 962
Operational risk	1 503 058	1 267 979	1 438 002	1 249 220
Market risk	4 044	1 196	4 044	1 196
Equity risk	971 624	477 381	589 883	333 996
Other assets	1 665 857	1 669 230	1 545 980	1 624 794
Total regulatory capital requirement[4]	12 525 485	10 566 490	11 983 347	10 410 168

Refer to the footnotes on page 100.

Indicates information that was audited.

Risk management report continued

R'000	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Composition of RWA[5]				
Credit risk – on-balance sheet	69 309 945	59 184 454	69 514 411	59 603 264
Credit risk – off-balance sheet	530 906	404 753	530 906	404 753
Total credit risk	69 840 851	59 589 207	70 045 317	60 008 017
Operational risk	12 525 485	10 566 491	11 983 347	10 410 168
Market risk	33 696	9 965	33 696	9 965
Equity risk	8 096 866	3 978 176	4 915 693	2 783 296
Other assets	13 882 143	13 910 253	12 883 172	13 539 952
Total RWA	104 379 041	88 054 092	99 861 225	86 751 398
Total assets based on IFRS	191 800 623	177 942 781	188 228 244	176 409 292
Total RWA – adjustments[6][8]	(87 421 582)	(89 888 689)	(88 367 019)	(89 657 894)
Total RWA – regulatory	104 379 041	88 054 092	99 861 225	86 751 398

(1) *For further details of the main features of these instruments, please refer to the consolidated Pillar 3 report on our website.*
(2) *These instruments include non-loss-absorbent preference shares that were phased out of regulatory capital on 1 January 2022.*
(3) *The total CAR percentage is determined by dividing the total qualifying regulatory capital by total RWA.*
(4) *This value is 12% of RWA, being the Basel global minimum requirement of 8%, the South African country-specific Pillar 2A buffer of 1%, the capital conservation buffer of 2.5% and the domestic systemically important bank (D-SIB) capital add-on of 0.5%. In terms of the regulations relating to banks, the idiosyncratic capital requirement Pillar 2B requirement is excluded.*
(5) *RWA is calculated by using the Basel 3 prescribed regulatory percentages in order to establish the base for calculating the required regulatory capital.*
(6) *The adjustments mainly reflect the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*
(7) *The base value of preference shares phasing out in terms of Basel 3 is R259 million. As at 28 February 2023, 81.11% (2022: 80.24%) of these shares had been repurchased as they no longer contribute to qualifying regulatory capital.*
(8) *In terms of the regulations relating to banks, goodwill and intangible assets, net of the related deferred tax liability, are treated as specific adjustments and are deducted from CET1 capital and reserve funds.*

Functions and processes of the ICAAP

We forecast Capitec's capital supply requirements, including stressing the budget and/or forecast, to determine the level of sufficient capital requirement in a downturn of the economic cycle.

We allow the regulator to assess Capitec's capital planning strategy.

We determine capital sufficiency through a review of Capitec's historical and future capital positioning and by considering a regulatory, shareholders' and internal capital perspective.

We manage Capitec's approach to raising capital by assessing the level of capital that is required to underwrite the risks of the business.

We raise capital when conditions are conducive to doing so and the sustainability, reputation and price optimisation benefits offset any issuing cost.

We use ROE as an input into investment decisions and the credit granting model.

Internal capital adequacy assessment process

The ICAAP addresses the management of capital and solvency risk and risks arising from the procyclicality of business operations through the economic cycle. This involves broad-based participation from key risk owners and is subject to periodic review by internal audit. The ICAAP is submitted annually to the SARB for review.

Basel 3

The regulations prescribe the standards to calculate minimum regulatory capital requirements for banks in South Africa, based on Basel 3.

We use the standardised approach to calculate RWA for credit risk, market risk and equity risks in the banking book and the alternative standardised approach for operational risk.

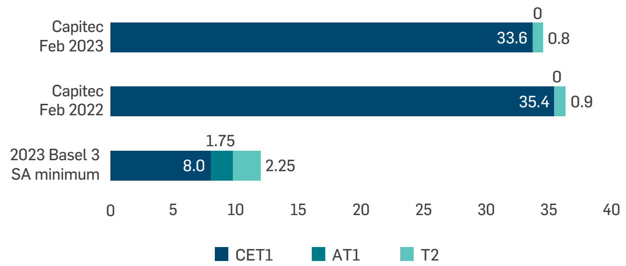
Loss-absorbency

Basel 3 loss-absorbency rules require AT1 and T2 capital instruments to have a clause in the agreement that enables the regulator to convert them to ordinary shares or write them down in the event of the resolution of the financial institution (a bailout by public institutions). The clause provides the regulator with alternative legal options in the event that a bank crisis must be resolved.

Leverage ratio

The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. The group's regulatory leverage ratio amounted to 18.1% (2022: 17.5%). Capitec Bank has a leverage ratio of 16.8% as at 28 February 2023 (2022: 16.2%).

Capital adequacy by tier (%)



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

AT1 capital: Our perpetual preference shares do not qualify as entry-level AT1 capital as it has fully phased out. We do not currently have any AT1 capital.

T2 capital: General allowance for unidentified (IFRS 9 stage 1 and stage 2) impairments.

The Basel 3 minimum total CAR for Capitec (excluding the confidential idiosyncratic capital add-on) is 12%. This percentage includes the Basel 3 minimum of 8%, the South African systemic risk add-on (Pillar 2A) of 1%, the capital conservation buffer of 2.5%, the D-SIB add-on of 0.5% and a countercyclical buffer add-on of 0%.

Risk management report continued

Restrictions on the transfer of regulatory capital

Given our simple structure, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act.

Capital recovery plan

The integrated recovery plan detects possible severe capital stress occurrences and provides guidance on appropriate management actions to respond to early-warning signs. As it is difficult to obtain additional capital in times of stress, we have a proactive and preventative approach to capital procurement.

Liquidity risk

We mitigate liquidity risk by ensuring that we have access to sufficient or acceptable cash and cash equivalents to fund an increase in assets and meet our obligations as they become due, without incurring unacceptable losses. We adhere to more stringent internal liquidity measurements than required by Basel 3.

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

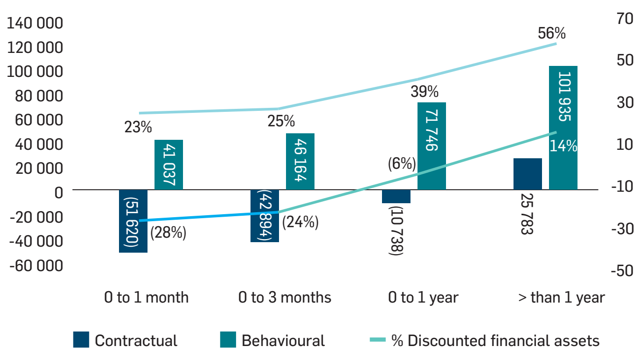
To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. The funds not invested in the loan book are managed in low-risk, liquid, interest-bearing instruments. These assets provide a positive return.

The liquid asset requirement of R6 484.0 million (2022: R6 166.8 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills, government bonds, government bond-backed resale agreements and cash. The intention is to hold all treasury bills and government bonds to full maturity.

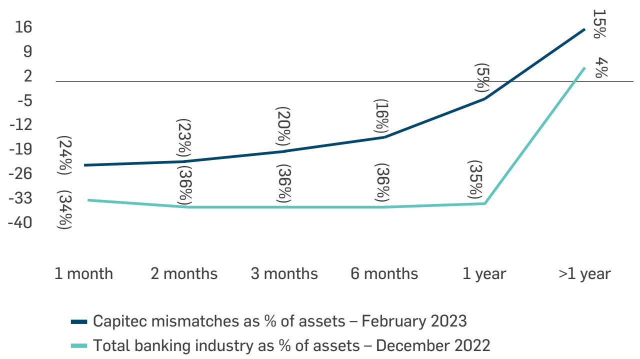
For cash planning purposes, we use the contractual mismatch and not the behavioural mismatch.

Contractual and behavioural liquidity mismatches

Contractual and behavioural liquidity mismatches (R'm)



Industry comparison – Cumulative contractual liquidity mismatches



Contractual and behavioural mismatches benefit from our high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 91.2% of these deposits (2022: 90.1%) are reflected as stable based on a standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions.

We complied with all regulatory liquidity capital requirements during the current and previous years.

Liquidity coverage ratio

The LCR is a 30-day stress test, using 90 days (actual data points for the quarter) to calculate an average for the quarter. It requires banks to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

	2023	2022
LCR (%)	2 191	2 881
High-quality liquid assets (R'm)	74 947	81 575
Net outflow (R'm)	3 421	2 832

As we have a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows. A ratio of 100% or more represents compliance in terms of Basel 3 requirements.

Net stable funding ratio

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. It also strongly relies on retail deposit funding. A ratio of 100% or more represents compliance.

	2023	2022
NSFR (%)	215	225
Required stable funding (R'm)	80 017	70 018
Available stable funding (R'm)	172 128	157 548

The NSFR is calculated according to the Basel rules. Our conservative approach to liquidity management has resulted in compliance with these liquidity ratios on a level that is consistently higher than required.

Retail call deposit limit ratio (RCDR)

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

Retail call deposit tolerance

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

Liquidity recovery plan

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

The monitor addresses 2 phases of liquidity difficulty, namely:

Early stage

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

Late stage

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

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

Insurance

Capital and liquidity management

Capitec Life is the holder of an insurance licence that was issued to the group during the current financial year. Capital and liquidity management is governed by a capital management policy setting out requirements pertaining to capital management, liquidity management, investment and asset liability management. The Insurance business division has its own ALCO which meets monthly and provides oversight over these matters.

Capitec Life performs quarterly as well as annual reporting of its solvency position on the regulatory basis (as set out in the Prudential Standards and Financial Soundness Standards for Insurers) to the PA, in line with regulatory requirements.

Capital and liquidity is monitored closely. Target capital and liquidity levels, as well as thresholds that require management action, will be put in place to ensure that appropriate management action is taken within acceptable time frames to maintain capital and liquidity at acceptable levels.

Capitec Life will conduct a risk and solvency assessment on an annual basis.

Reputational risk

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

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

To mitigate reputational risk, we have:

- a centralised policy on media
- an escalation process for complaints
- clear relationships with stakeholders
- processes to monitor media and social media statements.

Reputational incidents are dynamic and can be complex. We actively manage these by proactively monitoring intelligence to identify and respond to incidents. Our social media monitoring tool tracks all posts related to Capitec.

We use various processes and procedures to ensure the ethical and responsible use of technology and information, thereby protecting our reputation. We focus on a well-governed conduct management approach. Capitec's ethics policy and framework further support our efforts to manage reputational risk in the group.

Business risk

The risk of non-performance against planned strategic objectives, the consequences of inappropriate strategy or a decline in sales volumes or price that will negatively impact profitability.

Part of how we manage business risk is by monitoring regulatory changes as these can potentially impact business volumes. Changes can include interest rate movements, which affect cost, pricing and the size of loans.

Our risk mitigation strategy includes:

- a daily operational assessment of performance against the operational plan and MOS
- a monthly assessment of performance against the strategic plan
- biannual business plan reviews
- system optimisation.

Management activities are arranged according to key activities and value generators: transacting, saving, insurance and credit. Strategy and performance reporting on these activities is focused on applying key business drivers:

- The client is always at the centre of our decision-making process
- Delivery of products and services
- People management
- Business optimisation.

Business risk resulting from an inappropriate strategy is mitigated by an annual strategy review. The EXCO is accountable for developing our strategy and the board considers same for approval. They monitor implementation according to KPIs.

The impact of events on the future direction of the business and forecast results is quantified using stress testing as soon as information is available to make a quantitative assessment. Additional volume and price drivers are subject to sensitivity testing at least annually as part of the ICAAP process, including break-even analyses.

Remuneration report

Our remuneration report comprises 3 parts:

- *Part 1 consists of a background statement in the form of a letter from the REMCO chairman, reporting on factors that influenced the remuneration policy and forward-looking approaches, and the implementation of the policy over the past financial year*
- *Part 2 contains the forward-looking remuneration policy*
- *Part 3 illustrates the implementation of the remuneration policy over the past financial year.*

Part 1: Background statement

Letter from the REMCO chairman

On behalf of the REMCO, I am pleased to present Capitec's remuneration report for the 2023 financial year, my final report as chairman of the REMCO. Despite the challenges presented on both a global and local front, the business has continued to demonstrate its resilience, with our people maintaining focus on pursuing our strategic objectives.

Capitec remains focused on developing remuneration strategies that best serve stakeholder interests through sustainable growth. Remuneration is based on the successful implementation of these strategies to ensure that we only reward actions that advance stakeholder interests and that pay is appropriately aligned to performance. We continually monitor developments in regulation, best practice and related changes in the market that may have an impact on our approach to remuneration and regularly take input from stakeholders into consideration. We have engaged independent external remuneration consultants to ensure that our remuneration policy remains fit for purpose in a dynamic and changing environment and is aligned to the achievement of our strategies. In particular, we see our remuneration policy as key to our ability to attract and retain talent in a market where the battle for talent is fierce.

Shareholder engagement and voting outcomes

Shareholder engagement is a crucial part of our stakeholder engagement. Therefore, the REMCO charter specifies that we should adequately disclose information to stakeholders to facilitate constructive engagement with all relevant stakeholders, including shareholders.

As part of our ongoing commitment to proactively consult with our shareholders, we engaged with a number of our larger institutional investors ahead of our AGM in May 2022 to discuss the remuneration policy and implementation report. These reports subsequently received 79.08% (2021: 79.16%) and 52.54% (2021: 48.75%) of total votes in favour from shareholders, respectively, at the AGM. Given the voting outcome on the implementation report, and in compliance with King IV™ and the JSE Listings Requirements, we extended a further invitation for engagement to dissenting shareholders to understand their objections and rationale for their votes. Although this invitation was unfortunately not taken up, the REMCO had the opportunity to meet with several of our larger institutional investors later during the financial year to continue the discussion on our remuneration policy and implementation.

We are grateful to our shareholders for the meaningful discussions and for providing us with their valuable inputs. We remain committed to consulting our shareholders on the remuneration policy and implementation report on an ongoing basis.

Remuneration report continued

The key themes arising from our conversations with our shareholders, as well as our responses thereto, are set out in the table below.

Shareholder comments or concerns	Our response
The use of discretion to amend the performance period of in-flight long-term incentive (LTI) awards from 2018 to only consider performance preceding COVID-19, the outcome of which meant performance was measured over 2 years and a full vesting of awards	In 2022, the REMCO considered the 2018 grant vesting outcomes, for which the 3-year performance period ended during the 2021 financial year, taking into account the excellent performance of key management[1] during the first 2 performance years as well as their resilient, tireless and ingenious efforts during the third performance year (2021 financial year) as a result of the pandemic. This was evidenced in the share price recovery, the ability to have paid dividends, the recovery of headline earnings and the continued protection of livelihoods during the pandemic. In light thereof, in the 2022 financial year, the REMCO decided to take a balanced approach and to base the vesting of the 2018 grant on the performance of the 2 years preceding COVID-19 as the REMCO believed it resulted in a fairer outcome at the time. Following extensive engagement with our shareholders, we resolved to no longer apply any discretion to the vesting requirements and subsequently included the 2021 financial year in the measurement of performance of the 2019 grant, at the end of 2023. It is important to note that the inclusion or exclusion of the 2021 financial year ultimately proved to have no impact on the outcome of the vesting performance measures as measured in 2022 or 2023.
Concern that LTI performance conditions are not sufficiently challenging	The REMCO reviews all incentive schemes' appropriateness every year, including the vesting performance criteria for the key management LTIs. Reflecting on investor feedback and other factors, the REMCO decided that, for LTI vesting for all new grants from 2024 onwards, the vesting measures will be adjusted as follows: For the headline earnings per share (HEPS) measure (50% weighting): • A more stretching target is set requiring a 3-year average greater than or equal to the Consumer Price Index (CPI) + gross domestic product (GDP) + 6% for the full weighting of this measure to vest • A threshold (tiered vesting) is introduced requiring a 3-year average greater than or equal to CPI + GDP + 4% for half of this measure's weighting to vest. For the ROE measure (50% weighting): • The ROE is now compared to an absolute value added to the cost of equity (COE), rather than measuring relative value to the other banks (as in the past) • A more stretching target is set requiring normalised ROE over a 3-year average to be greater than or equal to COE + 6% for the full weighting of this measure to vest • The threshold target for ROE introduced last year will now also be termed in COE, requiring normalised ROE over a 3-year average to be greater than or equal to COE + 4% for half of this measure to vest. Measures will continue to be applied at the vesting of the first 25% tranche 3 years after grant. This and other aspects of the LTI are discussed in more detail in Part 2 of this report under the heading 'Long-term incentive'.

(1) Key management is considered to be the members of the group EXCO, excluding development members.

Policy changes implemented

We believe that our remuneration policy continues to serve our stakeholders' interests as we reward actions that advance stakeholder interests and ensure that remuneration is appropriately aligned to performance. The following policy changes were implemented during the year:

- A tiered vesting scale was introduced for the HEPS measure for LTI grants from the 2024 financial year onward, as part of our journey of moving away from binary performance vesting outcomes. The vesting scale allows for 50% vesting and full vesting of the HEPS measure's (50%) weighting of the total vesting outcome
- The ROE measure for LTI grants from the 2024 financial year onward has been changed to an absolute set percentage greater than or equal to COE (ROE ≥ COE + 6%), doing away with how it was measured in the past relative to the performance of the other banks
- Both the HEPS and ROE measures for LTI grants from the 2024 financial year onward are more stretching than in the past.

Overview of our performance and remuneration outcomes – key highlights

Once again, Capitec grew firmly in the year under review, as discussed in the Reports from the Chairman and Chief Executive Officer and Chief Financial Officer from pages 9 to 23. Headline earnings increased by 15% from R8.440 billion to R9.709 billion, with a ROE of 26%. Our leadership team successfully executed on strategic priorities for the year and are to be commended, along with our employees, for their resilience and ongoing efforts in realising our vision of being the preferred retail and business bank in South Africa.

Total guaranteed pay (TGP)

The average TGP increase awarded to all employees was 5.75%.

The details of the increases are set out in Part 3.

Short-term incentive (STI) and long-term incentive (LTI)

STIs were paid to all employees across the business. The vesting outcomes for the 2020 LTI awards, for which the 3-year performance period ended during the 2023 financial year, were 100%.

The REMCO is satisfied with the implementation of the remuneration policy during the year. More detail about the implementation of the remuneration policy is set out in Part 3 of this remuneration report.

Activities of the REMCO

During the year under review, in addition to the standing agenda items, the REMCO oversaw the following actions:

- The launch of Capitec Life as a subsidiary of the group
- Reviewed the continued appropriateness of LTI performance conditions and targets in light of shareholder feedback and introduced a vesting scale on the HEPS performance condition (thereby moving away from only binary performance targets), changed the ROE measure from a relative measure to an absolute measure using COE, and ensured both the HEPS and ROE targets are more stretching
- Concluded a comprehensive wage analysis to identify any potential internal pay discrepancies, with no unjustifiable pay discrepancies identified
- Reviewed the total remuneration (TR) of employees with key critical skills. These skills have a disproportionate influence on the continued success of Capitec. An improved remuneration strategy targeting these skills was implemented. We are confident that we are adequately positioned for market retention
- Reviewed the key management LTI structure. While we are comfortable that the current LTI structure remains appropriate for incentivising and retaining key management, a number of potential future alternative options were explored. The REMCO will continue to closely monitor the LTI structure going forward to ensure that it remains fit for purpose
- As tasked by the board through the REMCO charter, we confirmed that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act and King IV™ and to take into account stakeholder feedback
- Monitored remuneration practices and adherence to the remuneration policy, having met formally 3 times over the year and informally on an *ad hoc* basis, as deemed necessary
- Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust
- Evaluated and approved all annual increases for Capitec employees and proposed non-executive directors' fees to the board for recommendation to the shareholders for consideration at the AGM
- As required by Basel and King IV™, considered whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking
- The REMCO charter incorporates the regulations of the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, align with shareholder expectations and remain within a required risk framework. It is satisfied that these requirements have been met.

Our areas of focus for the 2024 financial year

In line with our charter, the REMCO continuously evaluates the remuneration policy against best practice and feedback received from stakeholders. The REMCO and management review employee remuneration and benefits continuously, taking into account, among other things, internal and external fairness as well as the overall remuneration spectrum in relation to key management remuneration levels. This involves being sensitive to the need for corporates to address unfair income disparities and employees' socio-economic challenges.

We progressively evolve our disclosure with the aim of ensuring that our reporting is transparent, accessible and in line with best practice.

Remuneration report continued

During the 2024 financial year, in addition to the areas of focus previously mentioned, the REMCO and management will focus on the following:

Remuneration aspect	Forward-looking approach for the 2024 financial year
Remuneration components review	A high-level review of all remuneration components to ensure that they are easy to understand, drive what they intend to achieve and are measurable.
Review of all incentive schemes	A more in-depth review of all incentive schemes across the business. Specific attention will be given to ensuring that they continue to achieve the desired outcomes, drive the correct behaviors, are measurable, are not overly complex and support our philosophy of simplicity (i.e. the operation of the scheme should be clear to participants).
Employee wellness	A broadened and more integrated employee wellness approach with special focus on financial wellness with the following deliverables: • Drive more appropriate utilisation of benefits and support earlier on for better employee outcomes • Roll out improved education, coaching and advice • Develop baseline reporting and analytics to better understand, anticipate and adapt to employee wellness developments.
Enhancing pay for performance (for employees below key management)	The implementation of a reviewed and redesigned performance management process to ensure that performance goals are robust and aligned to business deliverables enhancing the performance bonus structures (excluding key management STIs) to enable the rewarding of top performers with a higher performance bonus. Enhancing the performance bonus structures to further incorporate personal performance outcomes, thereby strengthening the principle of 'pay for performance' and ensuring that top performance is rewarded with a higher performance bonus.

Changes to the REMCO

The 2023 financial year brought changes to the REMCO, with the retirement of Chris Otto from the committee on 30 September 2022. We thank Chris for his valuable contributions during his term as a member of the REMCO and also for the many years he served as the REMCO chair. We are pleased to welcome Piet Mouton as the newest member to the REMCO.

External advice to the REMCO during the year

During the 2023 financial year, the REMCO fully executed its duties in accordance with its charter, relevant legislation, regulation and governance standards. In support thereof, Capitec enlisted the services of independent remuneration advisors to advise and assist with various remuneration matters, including the review of variable incentives. The REMCO is satisfied that these services, as rendered, were independent and objective.

At the 2023 AGM, shareholders will have the opportunity to vote on remuneration. In line with the JSE Listings Requirements, there will be 2 separate votes on the remuneration policy and its implementation (Parts 2 and 3 of this report, respectively). If 25% or more of the shareholders vote against either or both, the REMCO will ensure that:

- the result is communicated in a SENS announcement and that due shareholder engagement processes take place. We welcome feedback from our shareholders and will use various methods of shareholder engagement to best accommodate the various shareholders and ensure proper and meaningful engagement. These methods may include written correspondence, individual meetings with large shareholders and REMCO representation at shareholder engagement sessions. Any engagement will be led by the REMCO chairman
- in the following year's remuneration report, we will provide details on the engagement and steps taken to address legitimate and reasonable objections and concerns.

We believe the Capitec remuneration policy and its implementation support the long-term business strategy of the company and look forward to receiving our stakeholders' support.

Danie Meintjes
Chairman of the REMCO

18 April 2023

Part 2: Remuneration philosophy and policy

The remuneration policy, governed by the REMCO, promotes the achievement of company strategic objectives and risk management to foster enduring value creation for stakeholders.

Remuneration governance

The REMCO operates in terms of its board-approved charter, which adheres to section 64C of the Banks Act. The charter is reviewed annually.

The REMCO's mandate is to ensure that we establish and observe remuneration policies and practices that:

- attract and retain individuals able to create enduring and sustainable value
- address remuneration risks inherent in the banking environment.

In carrying out its mandate, the REMCO has unrestricted access to all the activities, records, property and employees of the company. In addition, the REMCO may access external legal or other independent professional advice to execute its responsibilities as detailed in its charter.

In line with the recommendations of King IV™, the REMCO consists of 4 non-executive directors, 3 of whom are independent. The REMCO meets formally at least twice a year. In addition, topics are discussed at less formal occasions leading up to the formal meetings. The REMCO met 3 times during the 2023 financial year.

Composition of the REMCO as at 28 February 2023

Attendee	Role	Capacity	Meeting attendance
DP Meintjes	*Chairman*	*Independent non-executive director*	3
V Mahlangu	*Member*	*Independent non-executive director*	3
PJ Mouton[1]	*Member*	*Non-executive director*	2
CA Otto[1]	*Member*	*Non-executive director*	1
SL Botha	*Member*	*Independent non-executive director (chairman of the board)*	3

(1) Mr CA Otto retired from the REMCO on 30 September 2022, after the first REMCO meeting of the financial year, and Mr PJ Mouton was appointed in his stead.

The following individuals attend the REMCO meetings as standing invitees:

- MS du Pré le Roux *(non-executive director)*
- CA Otto *(non-executive director)*
- GM Fourie *(CEO)*
- R Butler *(executive: human resources)*.

Invitees to the REMCO meetings have no vote and are not present when issues affecting their own remuneration are discussed.

Remuneration philosophy

Our remuneration philosophy originates from our stewardship of stakeholder interests. We develop strategies that best serve stakeholder interests through sustainable growth. Remuneration is based on the successful implementation of these strategies, ensuring performance-aligned pay.

This philosophy is integrated across all employee levels to ensure that we only reward actions that advance stakeholder interests. Our strategies and KPIs are communicated to employees upfront to ensure clarity, alignment, transparency and collaboration across the business. We take care to remain relevant in the market and compete effectively for critical talent.

Remuneration report continued

Frugality and the responsible use of our resources remain entrenched in our culture and demonstrate our commitment to our fundamental principle of affordability. This pillar underpins the sustainability of our relationships with our clients and employees. With this in mind, we drive innovation, continuous improvement and internal talent development to grow income, produce efficiencies and realise our people's potential. This, in turn, helps us to manage our salary expense while remaining competitive in acquiring and retaining the right talent.

General remuneration principles

The following remuneration principles support our remuneration philosophy:

Fair and responsible remuneration

People are at the core of our business and Capitec is committed to the principle of fair and responsible remuneration and ensuring that key management remuneration is fair and responsible in the context of overall employee remuneration. As a responsible employer, Capitec is sensitive to socio-economic challenges and the need for corporates to address unfair income disparities in society.

In addition, we constantly seek to ensure that the implementation of our remuneration policy results in fair and responsible remuneration and that employees have access to flexible employee benefits that are affordable and accessible.

Continuous efforts in this regard include:

- driving employee awareness and take-up of benefits and learning and development opportunities to realise more value for employees, with special attention to lower levels where there are challenges in terms of exposure and understanding how these opportunities improve employees' quality of life
- continued support of the credit health and general financial wellness of employees through education, awareness and credit rehabilitation in partnership with a specialist service provider
- ensuring internal fair pay practices, by continuing to ensure that equal pay is provided for work of equal value so that there are no income disparities based on gender, race or any other unacceptable grounds of discrimination. This includes regular job evaluations and benchmarking.

Fair and responsible remuneration was a key focus area for the REMCO for the 2023 financial year. Capitec conducted a comprehensive salary analysis. The aim was to understand the underlying distribution of Capitec employees' pay in the context of specific demographic information, especially related to gender, age, ethnicity, job grade and occupational level to establish if there were any unjustifiable discrepancies.

Phase 1 of this exercise focused on the entire Capitec employee population with the aim to understand the context of the data. This allowed for the calculation of general population metrics as well as the identification of cohorts of roles for further investigation.

Phase 2 included a deep dive into the employee groups identified for further investigation using a range of statistical models to identify potential differences in pay. This allowed for the analysis of potential pay gaps that might exist and highlighted jobs for further investigation.

No unjustifiable pay discrepancies were identified.

Benchmarking

Employees below executive level

Capitec continuously monitors the competitiveness of employees' TR through external benchmarking. For employees below executive level, the company uses the REMchannel® remuneration survey to obtain market insights into remuneration and reward trends as well as relevant benchmark information.

Executives

Executive remuneration is benchmarked externally at least every 2 years against a comparator group of JSE-listed companies similar in size in terms of market capitalisation and/or industry to ensure that remuneration is fair and in line with the market. In addition, Capitec looks at the remuneration for the 4 traditional South African banks, as the company's closest competitors. The comparator group is reviewed by the REMCO from time to time to ensure that the composition remains relevant. The REMCO reviewed the composition of the comparator group during the 2022 financial year and, but for the removal of RMB Holdings post the unbundling of their shares in FirstRand, is comfortable that the existing comparator group remains appropriate for Capitec. The following companies are included in the comparator group:

- Absa Limited
- Bidvest Limited
- Clicks Group Limited
- Discovery Limited
- FirstRand Limited
- Nedbank Group Limited
- Old Mutual Limited
- Remgro Limited
- Sanlam Limited
- Shoprite Holdings Limited
- Standard Bank Limited
- Vodacom Group Limited.

Elements of remuneration and pay mix

We apply appropriate remuneration structures and proportionate splits of TR into TGP, STIs and LTIs according to levels of influence (operational, tactical and strategic) and corresponding time horizons (short, medium and long term).

Group	Key management and divisional executives (including the CEO, CFO and executive: risk management)	Strategic leadership	Senior leadership (includes critical roles)	Other employees
Focus	Leading strategy formulation	Strategic delivery (key management/future talent succession pool)	Critical tactical delivery (succession pool for strategic leadership)	Operational
Strategic view	Long term	Medium to long term	Medium term	Short term

Our remuneration offering is set out in the table below.

Element of remuneration	Overview	Eligibility	Period of delivery
TGP	Salary and benefits	All employees	Paid in a year.
STI	Cash bonus	All employees (excluding strategic senior leadership, key management and divisional executives)	Paid in April after each financial year-end.
	Strategic and senior leadership performance bonus scheme: The employee receives a cash award, the vesting of which is subject to performance conditions. One-third is paid in April after financial year-end and the remaining portion is deferred, with payment in cash/settlement in shares occurring after 1 and 2 years. Employees can elect to defer the deferred cash portions into shares in terms of the restricted share plan (RSP) in respect of which employees will receive a small company match on the value of their deferred bonus portion. Strategic leadership employees will forfeit the company match in instances where they participate in the co-investment plan. See below.	Strategic and senior leadership	One-third is paid in April after each financial year-end. The remaining balance is deferred with payment in cash/settlement in shares occurring after 1 and 2 years. Vesting for restricted shares, the RSP, is set out below.
	Key management bonus	Key management and divisional executives	Paid in April after each financial year-end.
LTI	Cash-settled share appreciation rights (SARs) and equity-settled options, the vesting of which is subject to prospective performance conditions.	Key management and divisional executives	Deferred for 6 years with vesting occurring in years 3, 4, 5 and 6.
	RSP – provides senior management employees with the opportunity to defer their bonus into shares. The RSP can also be used to lock in future talent as needed.	Strategic and senior leadership	Deferred for 2 years with vesting occurring after 1 and 2 years.
	Co-investment plan in which participants can choose to invest their own funds by acquiring Capitec shares and receive awards of net-settled options (akin to equity-settled SARs).	Participation by selection only can include members of key management (excluding the CEO and CFO[1], divisional executives and strategic leadership)	Awards vest in equal tranches in years 4, 6, 8 and 10.

[1] The CFO has not received new grants since his appointment to the CFO position, although instruments granted before his appointment to the CFO position may still vest.

Pay mix

Key management and divisional executives' pay mix

The key management and divisional executive pay mix is split proportionately between TGP, STIs and LTIs. The principles determining the key management and divisional executives' pay mix are:

- TGP should be market competitive and sufficient in quantum to ensure that key management and divisional executives do not rely on variable remuneration-based short-term goals and decision-making
- STI earning potential is conservative compared to the market, which supports Capitec's key remuneration principle of long-term alignment with shareholders' interests
- LTIs facilitate this long-term alignment with shareholders' interests to ensure that key management and divisional executives' pay mix aligns with their long-term focus; a large proportion of the package consists of the LTI paid or vested in tranches over a number of years with performance criteria attached. Key management and divisional executives' LTIs are subject to personal performance criteria at grant and company performance criteria at vesting.

As noted in the STI section below, Capitec does not have a set stretch target for the STI; rather, the STI can increase incrementally commensurate to the outperformance achieved on the headline earnings target.

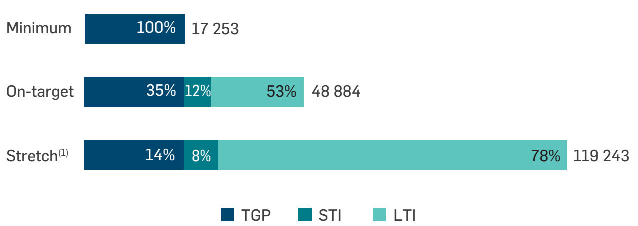
The LTI structure does not provide for a stretch outcome with regard to the ROE and HEPS measures. As the LTI takes the form of options and SARs, outperformance in terms of the LTI will be directly linked to Capitec's share price growth. Employees only receive the difference in the growth in the share price between the award date and exercise date. A higher share price growth results in a higher LTI outcome. Due to these nuances in our variable pay structure, our pay mix does not lend itself to the typical illustration of threshold, on target and stretch performance as recommended by King IV™. However, we have included graphs setting out the pay mix of Capitec's executive directors for minimum, on-target and above-target performance purely for illustrative purposes and to demonstrate the strong pay-for-performance culture that is a core principle of our remuneration philosophy. Although the LTI does not make provision for a stretch outcome based on ROE and HEPS performance, the graph illustrates a potential 'above target' LTI outcome in instances where Capitec outperforms in respect of share price growth.

The graphs assume the following:

Element	Calculation minimum	On target	Above target
TGP	TGP as at 1 March 2023, see page 113. Benefits in line with those paid in the 2023 financial year and contributions to the share purchase scheme are assumed to be zero.		
STI	Nil	33% of annual TGP	54% of annual TGP
LTI	Nil	The maximum number of instruments granted in the 2024 financial year that might vest multiplied by the fair value on grant.	The maximum number of instruments granted in the 2024 financial year that might vest multiplied by simulated share price growth between date of grant to vesting.

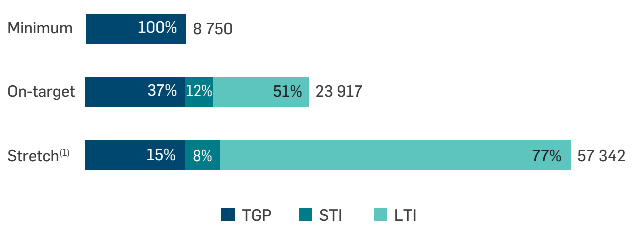
The CEO and CFO are not eligible to participate in the co-investment plan and it is intended that the plan will only be used on an as-needed basis. In light hereof and the fact that participation is voluntary, the co-investment plan has not been included as part of the executive pay mix detailed previously. Details of this co-investment plan are set out from page 119.

GM Fourie



(1) *The LTI stretch is calculated as the number of options (48 738) multiplied by a simulated maximum share price of R1 901.*

GR Hardy



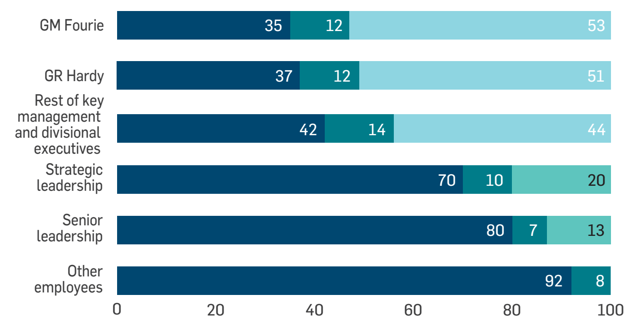
(1) *The LTI stretch is calculated as the number of options (23 070) multiplied by a simulated maximum share price of R1 901.*

Nkosana Mashiya will not receive a share grant for the 2024 financial year due to his resignation effective 31 March 2023, and he will also not be eligible to participate in the STI.

Pay mix for all other employees

The pay mix, illustrated with all proportions assuming on target performance:

Pay mix with on-target performance (%)



STIs are awarded to strategic and senior leadership subject to annual company performance year-on-year growth in headline earnings being on or above target and personal performance being satisfactory. Awards are settled in 3 cash tranches spread equally over 3 years.

For other employees, the main component of TR is TGP. These employees take part in the annual performance bonus (an STI), which is subject to company performance targets (year-on-year growth in headline earnings) being achieved or exceeded. In specific business units, employees may also take part in department-specific STI programmes that have individual and/or team performance measures to drive focused production targets.

Total guaranteed pay

Element	Description
2024 financial year policy changes	No changes
Overview and positioning	**Key management and divisional executives** TGP for key management and divisional executives is informed by: • the Capitec approach to the key management and divisional executives' pay mix described above • how TGP forms part of TR at market median (or the upper quartile in instances where this is warranted). Executive directors are remunerated for services as employees of Capitec Bank. No fees are paid for their services as directors of any other companies in the group. **Other employees** All employees receive guaranteed remuneration which is reflective of their job role. TGP is typically positioned at the median of the market. However, to ensure that Capitec is able to attract and retain scarce and key critical skills as well as top talent in a competitive job market, TGP for such positions may be positioned around the 75th percentile.
Components of TGP	TGP consists of guaranteed pay as well as benefits. In line with our employer value proposition, employees are guided on package structuring, but have options which can be adapted to suit their unique circumstances. Key employee benefits include: • risk benefits • funeral cover • medical aid and health insurance • gap cover • retirement planning • discounts on loan interest and mobile banking fees • favourable home loan interest rates.

Remuneration report continued

Element	Description
Annual review and increases	As a general principle, increases (including those of key management and divisional executives) are determined by taking the following factors into account: • Performance of the individual, team and company • Competence • Forecast profitability • The outcomes of benchmarking exercises • Economic factors, including the CPI. The REMCO annually reviews and approves the salary increases of each individual member of the EXCO. The REMCO is further presented with the proposed salary increase pool for all employees across Capitec, which is then reviewed and debated by the REMCO. The REMCO approves the annual salary increase pool and provides the authority to the CEO and divisional executives to distribute the increases as appropriate. Increases are typically effective from May.

Short-term incentive

Capitec's key management and divisional executives' remuneration policy and pay mix provide a modest cash STI which requires considerable performance. This is in line with Capitec's policy of risk alignment and encouraging long-term vision and decision-making by this group, as opposed to short-term goal setting.

Key aspects of the STI (key management and divisional executives' bonus)

Element	Description
2024 financial year policy changes	No changes
Eligibility	Key management and divisional executives
Overview	The key management and divisional executives' annual STI bonus is designed to recognise the achievement of company financial performance measures and a combination of strategic measures linked to Capitec's overall business strategy. The STI is self-funded and settled in cash. Although the STI is uncapped, the additional amount earned for performance above target is minimal. This ensures that the STI earned remains modest when looking at the pay mix as a whole. Targets are set by the REMCO annually that are truly stretching and only reward exceptional performance. At the end of the financial year, the REMCO assesses the level of financial and non-financial performance and determines the STI payment to be made to each member of key management and divisional executives as follows: **Step 1: The calculation of the overall STI pool** This is evaluated on headline earnings performance as set out in the 'earning potential' section of the following table. **Step 2: Assessing non-financial sustainability measures** The bonus is overlayed by non-financial sustainability measures. The quantum of the bonus can be reduced by as much as 30% if the non-financial sustainability measures were not successfully met. The bonus quantum in respect of headline earnings performance cannot increase based on delivery of these non-financial sustainability measures.

Element	Description
Overview continued	(see table below)

Non-financial measure	Weighting	Details of the measures holistically assessed
Strategic	10%	Strategic performance of the group which includes measures such as unlocking value in the Capitec ecosystem, enhancing our financial services value proposition and driving digital transformation.
Risk and control	10%	Risk and control performance of the group which includes measures such as maintaining optimum business and market conduct standards, proactively managing the organisational risk appetite and volatility and minimising the risk of credit loss/ impairments.
ESG	10%	ESG performance of the group which includes measures such as accelerated B-BBEE transformation, strengthening diversity, equity and inclusion, putting in place succession plans for executive roles and reducing our environmental footprint.

Step 3: Personal performance

Personal performance has been an entry criterion for participation in the STI of all executives for quite some time. Personal KPIs are contracted with the REMCO by each member of key management and are continuously monitored throughout the year. There are scaled entry criteria for each individual, based on their personal KPI scores achieved.

The following table sets out what percentage of the STI awarded to the individual from the pool will be paid out to them based on their personal KPI score achieved.

Personal KPI score (out of 5)	Less than 2	2	3 or more
% of STI paid	0%	50%	100%

The personal performance evaluations are considered as a final sense check post the assessment of the non-financial sustainability measures and can further reduce the distribution quantum to 0% if personal performance was not at an acceptable level.

Element	Description
Earning potential	Capitec does not have a set stretch target in place. Rather, the STI bonus pool allows for the pool that is funded based on group headline earnings to be incrementally uplifted on a sliding scale in the event of outperformance in group headline earnings relative to target which correlates directly with the percentage of STI payable. As such, the incremental uplift of the STI pool will have the following incremental knock-on effects for above-target bonuses for key management and divisional executives:

Headline earnings	Headline earnings (% of target achieved)	% of annual GRP[1]
Below target	<100%	0%
Target	100%	33%
Above target	Tier 1: 101% – 109% of target	Tier 1: 33.33% plus 1.67% for every 1% of headline earnings achieved above target
	Tier 2: 110% of target	Tier 2: 50.83%
	Tier 3: >110% of target	Tier 3: 50.83% plus 0.83% for every 1% of headline earnings achieved above 100% of target

[1] *GRP is guaranteed package, excluding risk benefits.*

Element	Description
Payment	Cash
Termination of employment	No payment on termination of employment other than formal retirement, death, permanent disability or retrenchment. For formal retirement, 100% payment is made at the normal retirement age, as well as on early retirement (from 60 to 64 years).

Strategic and senior leadership performance bonus scheme

Key aspects of the strategic and senior leadership performance bonus scheme:

Element	Description
Eligibility	Strategic and senior leadership and roles identified as critical to the success of the organisation (specifically excluding key management and divisional executives) are participants of the cash-settled strategic and senior leadership performance bonus scheme. The goal of the scheme is to motivate a medium-term strategic focus for these employees.
Overview	Participating employees receive an award consisting of the right to receive a cash amount on the vesting dates. Vesting of the award is subject to the achievement of both personal performance and company performance criteria. Following vesting, one-third of the award is settled in cash following the vesting date, with the remaining portion being deferred and settled in equal tranches in years 2 and 3, respectively. Employees have the option to elect to defer all or a portion of the deferred portion of the bonus into restricted shares in terms of the RSP (see details below) and to receive a 10% company match on the rand value of the bonus so deferred. The shares will similarly vest in years 2 and 3.
Performance period	1 year
Performance conditions, weightings, targets, vesting outcomes	Performance-based criteria include minimum personal performance and minimum company performance (growth in headline earnings) to qualify for an award.
Termination of employment	**Fault termination:** Forfeiture of all balances in the scheme on termination of employment other than formal retirement, death, permanent disability or retrenchment. **No fault termination:** No forfeiture applies. In addition, 75% of balances in the scheme are paid out on early retirement from 60 to 64 years and the full balance is paid at the normal retirement age of 65.

Long-term incentive

Key management and divisional executives' LTI

Key aspects of the key management and divisional executives' LTI:

Element	Description
2024 financial year policy changes	A tiered vesting scale was introduced for the HEPS measure for LTI grants from the 2024 financial year onward, as part of our journey of moving away from binary performance vesting outcomes. The vesting scale allows for 50% vesting and full vesting of the HEPS measure's (50%) weighting of the total vesting outcome. The ROE measure for LTI grants from the 2024 financial year onward has been changed to an absolute measure (measured with reference to COE), doing away with how it was measured in the past relative to the performance of the other banks. Both the HEPS and ROE measures for LTI grants from the 2024 financial year onwards are more stretching than in the past. The exercise period has been extended from 6 to 9 months to provide LTI participants with an enhanced employee value proposition with the aim to mitigate against market share price volatility in the short term that is beyond their control.
Eligibility	**Key management and divisional executives** Awards are fully subject to performance conditions and consist of 50% share options and 50% SARs.

Element	Description
Instrument	**Share options** With an option, employees are entitled, but not obliged, to purchase a number of Capitec ordinary shares at an agreed date in the future for a predetermined price. The option price is set equal to the market value of the share, being the 30-day volume-weighted average share price on the JSE immediately preceding the day on which the options are granted. The number of shares the employee can purchase is determined by company performance measures and in reference to the growth in share price above the option price over the vesting period. **Share appreciation rights** SARs operate similarly to the options detailed above in terms of option price, performance measures and vesting and exercise periods. SARs are settled in cash as opposed to equity. The amount settled is equal to the growth in share price above the option price. The SARs scheme is a simple, effective instrument and does not dilute issued share capital. SARs are granted at the same time and on the same terms (other than settlement) as the options.
Allocations	LTIs for key management and divisional executives are awarded annually as a percentage of TGP. Share options and SARs are granted equally (i.e., each 50%).
Performance period	Performance measures are assessed on a 3-year rolling average basis.
Performance conditions, weightings, targets, vesting outcomes	**Performance measures and vesting period** Beyond the minimum personal performance measures for participation (KPIs contracted with the REMCO), vesting is subject to the following company performance measures for all awards of SARs and options:

Measure	Weighting	Threshold (50%)	Target (100%)
Normalised HEPS over a 3-year average	50%	≥ CPI + GDP + 4%	≥ CPI + GDP + 6%
Normalised ROE over a 3-year average	50%	≥ COE + 4%	≥ COE + 6%

Linear vesting will occur between vesting levels of each measure.

The measures are applied at the vesting of the first 25% tranche in year 3 of 6 and affect all its future tranches.

The HEPS and ROE calculation takes into consideration adjustments (if required) resulting from, for example, material dividend policy changes, regulatory changes or IFRS changes.

It is important to note that the 6% spread applicable to HEPS and ROE is assessed prior to the commencement of the 3-year forward-looking performance period taking into account facts, circumstances and relative assumptions appropriate at the point of award (i.e. 3 years prior to performance testing being concluded).

Capitec chose an earnings metric and a return metric (equally weighted) as company performance measures for vesting to ensure that the combination motivates key management to drive both measures as opposed to one measure at the cost of the other.

Element	Description
Vesting	After the initial 3-year financial performance period, the share options and SARs vest in years 3, 4, 5 and 6 after grant, in 25% tranches. Participants have a 9-month period after the date on which the options vest to exercise their right to purchase the shares.

Remuneration report continued

Element	Description	
Termination of employment	**Fault termination:** In the case of just-cause dismissal or resignation, all unvested LTIs maturing after resignition date are forfeited. **No fault termination:** In the case of death or ill health, the REMCO has discretion to allow automatic vesting of all unvested LTIs. The following table sets out the vesting of an LTI on retirement, subject to the REMCO's discretion:	
	Retirement age	**Options and SARs**
	Before retirement (60 years)	Forfeit all non-vested options and SARs
	Early retirement (60 years – 64 years)	75% of options and SARs awards will vest at the original future vesting dates
	At retirement (65 years)	100% vesting of all options and SARs awards at the original future vesting dates
Dilution	Since the establishment of Capitec, 17.99 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these exercised options. The balance of ordinary shares required to settle options that have been exercised was acquired in the market. Shares acquired in the market for the purposes of LTI award settlement are non-dilutive, per JSE Listings Requirements Schedule 14 at 14.9(c), and shares settled through this method are therefore not considered in calculating usage against the limit. In terms of the Capitec Bank Holdings Share Trust (the Trust) deed, a maximum of 11.53 million ordinary shares may be issued for purposes of the Trust (scheme allocation), after which shareholder approval must be obtained to determine a new scheme allocation. The past dilutive effect of issues of ordinary shares, for purposes of the Trust since the inception of Capitec, remains at 5.04% of the issued ordinary share capital of Capitec as at 28 February 2023. The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 28 February 2023.	

Other LTI plans

Restricted share plan

Key aspects of the RSP:

Element	Description
Eligibility	Strategic and senior leadership who have elected to defer the deferred portion of their strategic and senior leadership bonus into restricted shares in terms of the RSP. Capitec may also use the RSP to make awards for purposes of attracting and retaining key future talent.
Operation	In order to provide for greater alignment with shareholders and to allow participants to benefit from the success of the company, participants can elect that all or a portion of an award in terms of the strategic and senior leadership performance bonus scheme be delivered in Capitec restricted shares in terms of the RSP upon which election employees will receive a small company match. The RSP is used as a retention tool, offering employees in the strategic leadership groups an opportunity to share in the ownership of the group and so further align these employees' interests with those of the business and our shareholders. Employees in strategic leadership who are eligible to participate in the co-investment plan may use these shares for purposes of meeting the investment condition of the co-investment plan (see details as follows).
Instrument	Restricted shares
Allocations	Where employees opt for shares, they will also receive a company match of 10% of the rand value of their award in additional restricted shares. Eligible employees in strategic leadership who opt for shares in terms of the RSP for purposes of meeting the investment condition in terms of the co-investment plan will forfeit the company match.
Vesting	The shares will vest in equal tranches in years 2 and 3. Participants receive all shareholder rights from the award date, including dividend and voting rights.

Element	Description	
Termination of employment	**Fault termination:** In the event of an employee's resignation, abscondment or dismissal, all unvested awards will be forfeited in their entirety and lapse on termination of employment. **No fault termination:** In the case of death, retrenchment, ill health or disability, the employment condition will be deemed to have been met and all unvested awards will vest in full on the date of termination of employment unless the REMCO determines otherwise. The following table sets out the vesting of an LTI on retirement, subject to the REMCO's discretion:	
	Retirement age	**RSP awards**
	Before 60 years	Forfeit all RSP awards
	From 60 years to 64 years	75% of RSP awards will vest at the original future vesting dates
	At 65 years	100% vesting of RSP awards at the date of termination of employment

Co-investment plan

The co-investment plan is for selected strategic leadership (excluding the CEO and CFO), successors and key talent. The purpose of this co-investment plan is to drive a culture of ownership and to provide an element of lock-in, while ensuring pay is aligned to the shareholder experience by having increased 'skin-in-the-game'. This plan will not form part of Capitec's annual LTI awards or strategic leadership bonus. The intention is for the plan to be used to encourage and incentivise select strategic leadership individuals, successors and key talent to invest in the business over the next few years, whereafter the intention is for the plan to be used on an as-needed basis.

The co-investment plan is structured in such a way as to incentivise participants to remain invested in the business over a 10-year period. The operation and salient features of this plan are set out in the table below.

Element	Description
Eligibility	Participation on a selection basis and can include members of key management (other than the CEO and CFO[1]), divisional executives and strategic leadership.
Operation	Eligible participants are invited to participate in the co-investment plan. In order to accept the invitation, participants are required to meet the investment condition by investing their own funds in Capitec through the purchase of shares (investment shares) in respect of which the participants then subsequently receive awards of leveraged net-settled options. The purchase of these investment shares can be done through the Capitec Employee Share Purchase Scheme by using all or a portion of an employee's STI after tax (in the case of key management and divisional executives). For strategic leadership employees, investment shares can be acquired through the Capitec Employee Share Purchase Scheme by using the vested portion of the bonus on an after-tax basis, and/or through deferring the remaining unvested portion of the strategic leadership bonus into RSPs which will vest as set out previously. Participants are required to retain their purchased shares over a set investment period of 3 years, failing which their award of net-settled options will be forfeited proportionally. Eligibility to participate is limited to select participants identified by Capitec on predetermined criteria.
Instrument	Leveraged net-settled option with a strike price which reduces by 5% on an annual basis over the 10-year exercise period.
Gatekeeper for entry to plan and quantum of awards	Upon the acquisition of these investment shares, participants then receive an award of leveraged net-settled options at a multiple of 3 to 4 times that of their pre-tax investment quantum. There are no sale or forfeiture restrictions applied to the investment shares, however, where a participant has disposed of the investment shares prior to the vesting of the net-settled options, the award of net-settled options will be reduced proportionately.
Reducing strike price	The strike price of unvested net-settled options will be adjusted downwards annually by 5% over a period of 10 years. This ensures that participants are incentivised to both grow the company's share price and remain invested in the co-investment plan over a longer period of time.

[1] *The CFO has not received new grants since his appointment to the CFO position, although instruments granted before his appointment to the CFO position may still vest.*

Remuneration report continued

Element	Description
Vesting and exercise	The vesting of net-settled options will be subject to continued employment and the net-settled options will vest and become exercisable in 4 equal tranches on the fourth, sixth, eighth and tenth anniversaries from the award date. Following vesting, participants have until the tenth anniversary of the award date to exercise their SARs. The strike price reduction applicable at exercise is determined with reference to the number of complete years which have passed from the award date.
Termination of employment	If the participant's employment terminates before the vesting date of an award, all unvested SARs will be forfeited upon such termination. Where employment is terminated after the vesting date of an award, participants may exercise all vested SARs before the end of the relevant notice period. To the extent that a SAR is not exercised during this period, it will lapse.
Lifespan of plan	The co-investment plan is not intended for long-term use or for making annual awards. It is proposed to make 3 to 4 awards in terms of this plan whereafter the plan can be used on an as-needed basis.
Dilution	Exercised options will be settled in Capitec shares which will be purchased on the market. The co-investment structure is therefore not dilutive to shareholders.

Alignment of remuneration with risk

The REMCO forms part of the formal risk governance framework and its charter mandates it to assess the appropriateness of the risk/reward relationship in remuneration structures. The REMCO is guided by the following:

- Inherent risks in the business model
- The risk-taking and delegation structure
- The status of the risk barometer as an indicator of the existence and management of risk.

The REMCO reviews variable remuneration and incentive plans to ensure that they are based on a measurable end result.

Malus and clawback

The REMCO has adopted a malus and clawback policy with a view to further align the interests of executive directors with the long-term interests of Capitec and all its stakeholders and to ensure that excessive risk-taking is mitigated. The malus and clawback policy applies to all key management, divisional executives and strategic leadership participants and is applicable to all prospective STI and LTI awards.

Following recommendations from the REMCO, the board may act to adjust (malus) or recover (clawback) any STI or LTI paid/settled on the occurrence of a trigger event. Trigger events include (but are not limited to):

- material misstatement of financial statements
- dishonesty, fraud or gross misconduct.

Executive director and key management agreements

Executive directors and other members of key management do not have fixed-term or bespoke key management agreements, but are employed in terms of the group's standard employment agreement. For all members of key management and divisional executives, the notice period for termination of service is 3 months. Normal retirement age ranges from 60 to 65 years, unless the board requests to extend this term.

No additional payments are made to key management upon termination of employment (apart from those required in terms of labour legislation).

Upon termination of employment, all STIs are forfeited. Unvested LTIs will be treated in accordance with the LTI policy (refer to page 115, termination of employment and effect on an unvested LTI).

Risk and compliance employees' remuneration

Remuneration levels and structures for risk and compliance employees are determined as part of the annual budget process and are subject to oversight by the REMCO. This happens independently of the relevant risk departments.

The audit committee ensures that these employees are correctly and fairly remunerated. A bonus cap ensures that the remuneration of employees in internal audit roles is in line with best practice. Bonuses for internal audit employees are capped at 500% of an employee's monthly salary (41.67% of their annual salary).

Minimum shareholding requirements (MSRs)

MSRs expose key management to the same risks and rewards faced by Capitec's shareholders. Capitec's key management voluntarily hold an outright share ownership (through direct shareholding and not unvested LTIs) that is not less than the value of the following proportion of their respective TGP as at 28 February 2023:

Position	Minimum holding in proportion to TGP %
CEO	300
CFO	300
Key management	100

The minimum holding should be retained until termination of employment. The percentage shareholding should be achieved within 5 years from 1 March 2016 or within 5 years of a key management appointment. The executive directors' value is disclosed in Part 3 of this report.

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director fees

Non-executive director remuneration is based on a fixed-fee structure not related to meeting attendance. The chairman of the board is paid a retainer and receives no further payment for committee membership. Board members receive a retainer for board membership and for each board committee on which they serve. No fee is paid for members of the DAC.

Capitec's approach is to benchmark board and committee fees to the median of the comparator group. From 2024 onwards, it is proposed to benchmark the fees for the RCMC and audit committee chairmen to the 75th percentile to take into account the increased complexity in the banking environment.

Non-executive directors do not qualify for any STI.

No new LTI allocations are made to non-executive directors, however, previous tenure as a member of key management may result in legitimate vesting of a previously awarded LTI. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

Proposed 2024 financial year non-executive director fees

Towards the end of the 2022 financial year, Capitec conducted an external benchmarking exercise against a comparator group of companies as part of reviewing the non-executive director fees. The same comparator group was used as for the executive directors, as set out on page 122.

The benchmarking concluded that a number of the non-executive director fees still remain out of line with the median of the market (see the following table).

Capitec follows a stepped approach towards bringing all of the positions in closer proximity to the median of the comparator group, while capping annual increases at a maximum of 30% and only adding inflationary increases to the other positions. The consequential adjustment in fees for the 2024 financial year therefore serves to provide market alignment between the non-executive directors' responsibilities and risks of peer non-executive directors operating in comparable industries to Capitec. While it is noted that the increases represent a meaningful adjustment in some instances, the board believes it is necessary to ensure the continued attraction of suitable talent.

Remuneration report continued

The following proposed 2024 financial year non-executive director fees will be tabled for approval by shareholders (in terms of the Companies Act) at the AGM to be held on 26 May 2023. Refer to special resolution number 1 in the notice of the AGM.

Directors' fees	2023 R	Change %	2024 R	Comparator group market median[(1)] R	Banks average[(2)] R
Chairman of the board[(3)]	4 225 000	25	5 300 000	5 375 055	7 167 128
Lead independent director	318 000	6	338 000	338 198	
Directors	502 000	6	534 000	532 607	
Chairman of the audit committee[(4)]	750 000	22	917 000	797 718	916 084
Audit committee member	305 000	6	324 000	324 429	
Chairman of the DAC	—	—	—	289 767	
DAC member	—	—	—	116 127	
Chairman of the RCMC[(4)]	553 000	30	718 000	588 357	856 846
RCMC member	264 000	6	281 000	276 034	
Chairman of the REMCO	391 000	6	416 000	413 085	
REMCO member	184 000	7	196 000	194 102	
Chairman of the SESCO	329 000	11	365 000	365 246	
SESCO member	136 000	10	149 000	148 650	
Subcommittee of the board	77 600	6	82 600	—	

(1) *2023 market median determined using 2022 external benchmarking data +6.5%. The benchmarking exercise is only completed every second year.*

(2) *2023 banks average determined using the 2022 average of the 5 banks +6.5%. Used as a secondary reference point in determining the proposed fees for the chairmen of the audit committee and RCMC and the chairman of the board.*

(3) *This is an all-inclusive figure, and includes the fee for Capitec Insure.*

(4) *Chairman of the audit committee and chairman of the RCMC are being aligned to the 75th percentile of the comparator group due to the complexity in the banking environment.*

Part 3: Implementation report

This part of the report provides insight into the implementation of our remuneration policy during the year ended 28 February 2023.

It details the remuneration paid to both executive directors and non-executive directors, in particular:

- the TGP increases approved in line with the Capitec TR policy approach
- STI performance versus the targets set
- the LTI awards granted in the reporting year to eligible employees ensuring continued retention and alignment with shareholders' interests and the pay-for-performance philosophy
- the LTI awards vesting in the reporting year
- the fair value of unvested LTI awards remaining, which demonstrated alignment between executive directors and shareholders' interests
- an overview of the incremental TR growth over the past 5 years compared to some key financial metrics (being the value added to shareholders in terms of metrics such as headline earnings, ROE and share price growth)
- a single remuneration figure for the value of actual TGP paid, STI paid and any LTIs vesting in the 12 months following year-end
- the executive directors' shareholding compared to MSRs
- the non-executive director fees paid to individuals for their services as board and committee members as approved by shareholders.

Total guaranteed pay

For the 2023 financial year, the average increase for employees was 5.75% and for the executive directors circa 7%.

This year, the TGP increases have followed market alignment with the comparator group indicated on page 112 in Part 2.

Short-term incentive

In terms of our remuneration policy, a small proportion of key management and divisional executive remuneration is delivered through the STI which is determined based on the audited percentage target achieved of group annual headline earnings and non-financial strategic initiatives. In order for a member of key management to receive an STI, the group headline earnings target must have been achieved. Capitec does not have a set stretch target in place. Rather, the STI bonus pool allows for the pool to be incrementally uplifted on a sliding scale in the event of outperformance in group headline earnings relative to target which correlates directly with the percentage of the STI payable. As noted above, Capitec performed strongly during the financial year and delivered headline earnings of R9.709 billion, which is 100.2% of target.

Performance measurement for determining the STI outcome is done in a stepped approach.

Step 1: The group financial performance is measured in terms of headline earnings against the targets set at the beginning of the year. This provides a potential earning pool.

Step 2: The result from step 1 can then be adjusted downward by up to 30% for the entire key management, based on non-financial sustainability measures.

Based on the shareholder feedback requesting enhanced disclosure of the application of group KPIs, we have provided a more detailed overview of this on the following page.

Step 3: The result from step 2 is then subject to personal performance measures on an individual basis which may result in as much as the entire STI not being paid out to that individual.

Remuneration report continued

Step 1: Group financial performance measurement

The table below sets out an overview of the sliding scale used to determine the STIs payable in respect of the headline earnings target achieved.

	Performance targets Below target %	Target %	Above target	Actual performance %
Headline earnings (% of target achieved)	<100	100.0	Tier 1: 100.0% – 109.9% of target Tier 2: 110.0% of target Tier 3: >110.0% of target	100.2
% of annual GRP	—	33.3	Tier 1: 33.3% plus 1.7% for every 1% of headline earnings achieved above target Tier 2: 50.8% Tier 3: 50.8% plus 0.8% for every 1% of headline earnings achieved above 110% of target	33.5

Linear interpolation applies between performance levels.

Step 2: Non-financial sustainability measures

All measures were sufficiently met resulting in no downward adjustment of earnings based on non-financial sustainability measures.

The following table sets out the performance assessment against the KPIs set at the start of the year:

	Category	Description	Targets	Achievement	Assess-ment	Weigh-tings
Non-financial	**Strategic**	• Unlock client value within the Capitec ecosystem	Measures combining: • **delivery of strategic key products and services** and • **their contribution to financial performance growth** within the year and • how they strategically position the group for new markets, market share growth and financial success	Examples of how these targets were achieved are evident in the market, such as the launch and success of the following products and services: • **Value-added services** (Lotto, bill payments and vouchering) • **Capitec Connect** – mobile virtual network operator launched with one rate for data, voice and SMS and non-expiry of prepaid products • **Business bank** rebrand and integration into the group's product and service offerings • **Insurance licence** secured for the Insurance business	Overall achieved	10%
		• Optimise client service delivery	Measures that **drive innovative optimisation in client service delivery** to drive client trust in our products and services, incorporating minimum hard set levels of: • system stability and • cybersecurity	The desired delivery of innovative optimisations was **achieved** while the set hard measures for minimum levels of system stability and cybersecurity were maintained so improving client trust in our products and services.		
Non-financial continued	**Strategic**	• Drive digital transformation	Delivery on planned digital commerce initiatives that drive our strategic direction to ease the migration away from cash. The delivery of set technical, governance and other targets for the transformation to modern data practices that are enabling and reliable.	Examples of how these targets were achieved are evident in the market and the launch of Capitec Pay and Pay me QR code functionalities on our mobile app. Data targets were not fully achieved[(1)], although meaningful enablement and governance improvements were delivered.	Overall achieved	10%
		• Maintain optimum business and market conduct standards	A hard target set against a holistic composite scorecard indicator for TCF.	TCF indicator target achieved.		
		• Manage risk appetite and volatility	A hard target set against a holistic composite scorecard of risk across the business.	Risk composite scorecard target achieved.		
		• Minimise the risk of credit loss/ impairments	Maximum value of acceptable bad debts.	Bad debts ended higher than the set target, although within very close proximity (not achieved)[(2)].		
	ESG	• Expedite B-BBEE transformation	B-BBEE scorecard target Level 2.	B-BBEE scorecard Level 2 achieved (subject to verification).	Overall achieved	10%
		• Accelerate diversity, equity and inclusion and strengthen executive succession	Set targets for transformation at mid, senior and top management in each occupational level.	Diversity target achieved at mid, senior and top management.		
		• Effective management of our environmental footprint	ESG score rating target, as measured by S&P Global.	ESG score rating target achieved.		

(1) Even though the 'transformation to modern data practices' sub-category's target was not fully achieved, meaningful enablement and governance improvements were delivered and the rest of the strategic sub-categories' measures were well delivered, resulting in an 'overall achieved' outcome for the strategic measure.

(2) Even though the 'maximum value of acceptable bad debts' sub-category's target was not achieved, the value was in such close proximity to the target and the balance of the risk and control sub-categories' measures were well achieved, resulting in an 'overall achieved' outcome for the risk and control measure.

Step 3: Personal performance

The REMCO reviewed the personal performance of key management with regard to the non-financial strategic initiatives, which included measures in respect of efficiency, business delivery, diversification of income stream, people, quality clients, innovative digital and data and service experience and is satisfied with each member of key management's performance.

As such, no downward adjustment was made to the STI based on individual performance.

STI outcomes

Key management	TGP R'000	% payable as an STI	STI payable R'000
GM Fourie	16 920	100	5 427
GR Hardy[(1)]	4 715	100	2 345
AP du Plessis[(2)]	4 409	—	—
NS Mashiya[(3)]	6 800	—	—

(1) Mr GR Hardy was appointed to the CFO position on 1 July 2022 and, as such, his STI and TGP are pro-rated by the number of months within the financial year that he was in the CFO position.

(2) Mr AP du Plessis received no STI due to retirement effective 30 June 2022.

(3) Mr NS Mashiya receives no STI due to resignation effective 31 March 2023.

Remuneration report continued

Long-term incentive

The following section sets out details of the instruments granted during the year, instruments vesting during the year (included in the single-figure table) and instruments that remain unvested at the end of the financial year. For instruments exercised during the year, we set out the cash value received on exercise.

LTI awards granted in the reporting year

In line with our remuneration policy as set out in Part 2 (page 109), grants of options and SARs were made to executive directors during the year. Options and SARs are subject to the performance measures set out on page 117. Details of the number of shares and the options price are set out in the unvested awards table on pages 128 and 129.

LTI awards vesting in the reporting year

For the financial year ended 28 February 2023, Capitec only has options and SARs with performance measures vesting. Performance measures were introduced for all LTIs granted from 2016 onwards. All awards vest in equal tranches in years 3, 4, 5 and 6. Capitec has reviewed the methodology set out in the King IV™ guidance notes issued by the South African Reward Association (SARA) and the Institute of Directors South Africa (IoDSA).

For options and SARs that have performance measures, the guidance notes suggest that the value of options and SARs is included in the single-figure table at year-end aligned with when the performance period ends. As Capitec uses tranche vesting, there is a significant timing misalignment between the end of the performance period (3 years) and the achievement of the employment condition and resultant vesting (years 3, 4, 5 and 6). For this reason, the REMCO has taken the decision to report the value in the single-figure table in respect of the options and SARs that are due to vest within 12 months of the financial year-end as it accurately reflects the economic value to participants at the time of vesting.

Achievement of performance measures

In line with investor feedback, we resolved to include the 2021 financial year in the measurement of performance of the 2018 grant now at the end of 2023.

All executive directors achieved their personal performance targets (KPIs contracted with the REMCO) over the reporting year.

Beyond the minimum personal performance measures for participation, vesting was subject to company performance for all awards of SARs and options.

The table below sets out the vesting performance measures for the March 2020 options and March 2020 SARs.

Performance measure	Weighting %	Performance target	Actual performance %	Actual vesting %
HEPS	50	Growth exceeding CPI + GDP + 4% Target: 9.7%[(1)]	28	50
ROE	50	Outperform the average ROE of the big 4 traditional banks in South Africa + 2% Target: 18.8%[(1)]	26	50
Total				100

[(1)] *The calculation used the latest result whether final or interim at 28 February 2023.*

Key management LTIs are aimed at driving company performance and share price growth over the long term, with the LTI outcomes being directly linked to the growth in Capitec Bank Holdings Limited's share price, and employees only receiving the growth in share price above the strike price. In addition to meeting both the ROE and HEPS performance targets in full, Capitec Bank Holdings Limited also delivered outstanding share price growth of 35% over the performance period above the strike price of R973.05 and R911.63, which is reflected in the LTI outcomes set out in the following table.

The table below sets out the resultant number of shares available for vesting based on the achievement of performance measures.

Executive	Type of instrument	Shares awarded	Performance condition achievement %	Strike price R	Number of shares vesting
GM Fourie	Options	26 703	100	973.05	26 703
	SARs	26 703	100	973.05	26 703
	Total				**53 406**
AP du Plessis	Options	16 608	100	973.05	16 608
	SARs	16 608	100	973.05	16 608
	Total				**33 216**
NS Mashiya	Options	1 147	100	973.05	1 147
	SARs	1 147	100	973.05	1 147
	Total				**2 294**
GR Hardy	Options	1 646	100	911.63	1 646
	SARs	1 646	100	911.63	1 646
	Total				**3 292**

The table below sets out details of the value of awards included in the single-figure table on page 130. We used a year-end share price of R1 754.51.

Executive	Type of instrument	2018 awards R'000	2019 awards R'000	2020 awards R'000	2021 awards R'000	Value of shares included in single-figure table R'000
GM Fourie	Options	6 686	5 009	2 960	5 217	19 872
	SARs	6 686	5 009	2 960	5 217	19 872
	Total					**39 744**
AP du Plessis	Options	4 119	3 299	1 840	3 245	12 503
	SARs	4 119	3 299	1 840	3 245	12 503
	Total					**25 006**
NS Mashiya	Options	1 419	1 036	508	896	3 859
	SARs	1 419	1 036	508	896	3 859
	Total					**7 718**
GR Hardy	Options	—	—	—	347	347
	SARs	—	—	—	347	347
	Total					**694**

LTI unvested awards

The following table sets out the unvested instruments remaining for each executive director. It includes a calculation of the indicative value of unvested instruments at the end of the 2023 financial year and a calculation of the cash value of instruments exercised in the 2023 financial year. The methodology used in determining these values is in line with the guidance notes issued by SARA and the IoDSA.

Before studying the table, it is important to consider the following:

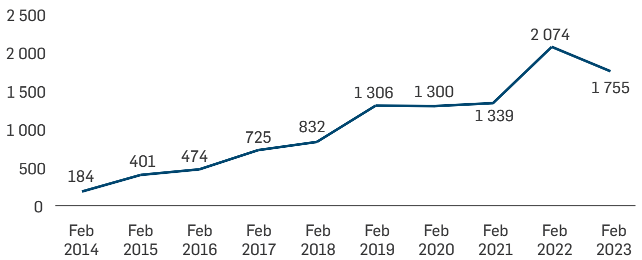
- The first grant with performance measures applicable was made in April 2016 (financial year 2017) and the first tranche vested in April 2019
- As such, the table sets out the awards which vested in respect of this first tranche as well as the number of awards which lapsed following the testing of the performance measures
- The indicative value of unvested instruments is an estimated value and is not an actual reflection of the value of the award that will vest in future
- The cash value of instruments exercised in the year represents the gain made on the exercise of instruments during the year
- The indicative value of unvested instruments and the cash value of instruments exercised in the year should not be added together.

Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Number of instruments lapsed	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number exercised in the year	Share price at which instruments were exercised R	Cash value of instruments exercised in the year R'000
	A	B	C	D	E = A-C-D	F	G	H	I = G x (H-B)
GM Fourie									
Options									
2017	36 677	473.05	36 677	—	—	—	9 169	2 223.16	16 047
2018	25 507	705.93	19 131	—	6 376	6 685	6 377	2 223.16	9 675
2019	22 957	881.76	11 479	—	11 478	12 101	5 739	2 223.16	7 698
2020	20 428	1 175.01	5 107	—	15 321	13 655	5 107	2 223.16	5 353
2021	26 703	973.05	—	—	26 703	23 366	—	—	—
2022	21 681	1 392.19	—	—	21 681	14 957	—	—	—
2023	**18 513**	**2 067.19**	**—**	**—**	**18 513**	**9 977**	**—**	**—**	**—**
SARs									
2017	36 677	473.05	36 677	—	—	—	9 169	2 276.02	16 531
2018	25 507	705.93	19 131	—	6 376	6 685	6 377	2 276.02	10 012
2019	22 957	881.76	11 479	—	11 478	12 101	5 739	2 276.02	8 002
2020	20 428	1 175.01	5 107	—	15 321	13 655	5 107	2 276.02	5 623
2021	26 703	973.05	—	—	26 703	23 366	—	—	—
2022	21 681	1 392.19	—	—	21 681	14 957	—	—	—
2023	**18 513**	**2 067.19**	**—**	**—**	**18 513**	**9 977**	**—**	**—**	**—**
AP du Plessis									
Options									
2017	22 420	473.05	22 420	—	—	—	5 605	2 276.02	10 106
2018	15 714	705.93	11 786	—	3 928	7 548	3 928	2 276.02	6 167
2019	15 121	881.76	7 561	—	7 560	11 290	3 780	2 276.02	5 270
2020	12 705	1 175.01	3 177	—	9 528	9 337	3 177	2 276.02	3 498
2021	16 608	973.05	—	—	16 608	14 533	—	—	—
2022	12 621	1 392.19	—	—	12 621	8 707	—	—	—
AP du Plessis									
SARs									
2017	22 420	473.05	22 420	—	—	—	5 605	2 276.02	10 106
2018	15 714	705.93	11 786	—	3 928	7 548	3 928	2 276.02	6 167
2019	15 121	881.76	7 562	—	7 559	11 290	3 780	2 276.02	5 270
2020	12 705	1 175.01	3 177	—	9 528	9 337	3 177	2 276.02	3 498
2021	16 608	973.05	—	—	16 608	14 533	—	—	—
2022	12 621	1 392.19	—	—	12 621	8 707	—	—	—
NS Mashiya									
Options									
2016	35 500	540.00	35 500	—	—	—	—	—	—
2017	7 791	473.00	7 791	—	—	—	1 947	2 305.00	3 567
2018	5 414	705.93	4 061	—	1 353	1 419	1 353	2 305.00	2 164
2019	4 749	881.76	2 375	1 187	1 187	1 036	1 187	2 305.00	1 689
2020	3 509	1 175.01	878	1 754	877	508	878	2 305.00	992
2021	4 587	973.05	—	3 440	1 147	896	—	—	—
2021	6 287	909.58	—	6 827	—	—	—	—	—
2022	5 883	1 392.19	—	5 883	—	—	—	—	—
2023	**5 964**	**2 067.19**	**—**	**5 964**	**—**	**—**	**—**	**—**	**—**
SARs									
2015	12 000	0.01	12 000	—	—	—	—	—	—
2016	7 791	473.05	7 791		—	—	1 947	2 150.00	3 265
2017	5 414	705.93	4 061	—	1 353	1 419	1 353	2 150.00	1 954
2018	4 749	881.76	2 375	1 187	1 187	1 036	1 187	2 150.00	1 505
2019	3 509	1 175.01	878	1 754	877	508	878	2 150.00	856
2020	4 587	973.05	—	3 440	1 147	896	—	—	—
2021	6 287	908.58	—	6 827	—	—	—	—	—
2022	5 883	1 392.19	—	5 883	—	—	—	—	—
2023	**5 964**	**2 067.19**	**—**	**5 964**	**—**	**—**	**—**	**—**	**—**
GR Hardy									
Options									
2021	1 646	911.63	—		1 646	1 549	—	—	—
2023	**4 535**	**2 067.19**	**—**		**4 535**	**2 444**	**—**	**—**	**—**
2023	**1 646**	**2 106.13**	**—**		**1 646**	**900**	**—**	**—**	**—**
SARs									
2021	1 646	911.63	—		1 646	1 549	—	—	—
2023	**4 535**	**2 067.19**	**—**		**4 535**	**2 444**	**—**	**—**	**—**
2023	**1 646**	**2 106.13**	**—**		**1 646**	**900**	**—**	**—**	**—**

Key management value creation

As noted above, the key management LTIs are aimed at driving company performance and share price growth over the long term, with the LTI outcomes being directly linked to the growth in Capitec's share price, and employees only receiving the growth in share price above the strike price. The graph on the right provides an overview of Capitec's steady and continuous share price growth delivery over the past 10 years. This growth is reflected in the LTI outcomes included in the previous LTI tables and in the single-figure table as follows.

Capitec Bank Holdings Limited share price



Remuneration report continued

The table below compares the headline earnings of Capitec over the past 6 years with the total executive remuneration paid in each respective year. The REMCO is satisfied that the level of executive pay as a proportion of headline earnings is reasonable, especially when one considers the value created for investors over the period in comparison to the incremental total executive remuneration increase over the same period. Note that the value included below in respect of total executive remuneration differs from that in the single-figure table as it uses the fair value at grant for LTIs rather than the indicative value of awards that have vested.

	Headline earnings R'm	Total key management remuneration[(1)] R'm	Remuneration as % of headline earnings	ROE %
2023	**9 709**	**114**	**1**	**26**
2022	8 440	140[(2)]	2	26
2021	4 586	104	2	17
2020	6 277	105	2	28
2019	5 292	109	2	28
2018	4 461	88	2	27
Value created over 5-year period versus remuneration cost differential	**5 248**	**26**		

(1) *Includes all key management TGPs, STIs and LTIs at fair value granted during the year and measured on the reporting date.*

(2) *The 2022 key management remuneration was an exceptionally high value due to the combined impact of the exceptional share price and HEPS growth over the 2022 financial year on the fair value of the LTI and STI, respectively. The value has normalised for the 2023 financial year.*

Executive director single figure

The following table illustrates a single remuneration figure for the value of guaranteed pay, benefits, STIs and LTIs. The corresponding value for the preceding year is included.

Executive directors R'000	Guaranteed pay	Benefits	TGP	STI	LTI	Total remuneration for the year
2023						
GM Fourie	**16 000**	**920**	**16 920**	**5 427**	**39 744**	**62 091**
AP du Plessis[(1)]	**5 408**	**640**	**6 048**	**—**	**25 006**	**31 054**
NS Mashiya[(2)]	**6 664**	**88**	**6 752**	**—**	**7 718**	**14 470**
GR Hardy[(4)]	**4 667**	**46**	**4 713**	**1 563**	**694**	**6 970**
Total	**32 739**	**1 694**	**34 433**	**6 990**	**73 162**	**114 585**
2022[(3)]						
GM Fourie	14 667	99	14 766	8 313	69 690	92 769
AP du Plessis	10 780	94	10 874	6 049	43 430	60 353
NS Mashiya	6 300	75	6 375	3 525	14 350	24 250
Total	31 747	268	32 015	17 887	127 470	177 372

(1) *Mr AP du Plessis receives no STI due to his retirement effective 30 June 2022.*

(2) *Mr NS Mashiya receives no STI due to his resignation effective 31 March 2023.*

(3) *The LTI included in the single figure takes into consideration both the delivery on the underlying ROE and HEPS performance measures, and the significant growth in Capitec's share price from date of award up to the end of the 2023 financial year.*

(4) *Mr GR Hardy was appointed to the CFO position on 1 July 2022 and, as such, his STI and TGP is pro-rated by the number of months within the financial year that he was in the CFO position.*

Executive director shareholding

In the 2017 financial year, the REMCO introduced MSRs for executive directors and other key management (see the related section under Part 2: Remuneration philosophy and policy on page 109).

The REMCO is satisfied that the CEO, CFO and executive: risk management continue to meet their MSRs and exhibit a strong buy-in to the principle of alignment with shareholder interests.

The percentage shareholding as at financial year-end is:

Position	% of TGP
CEO	12 094
CFO[(1)]	201
Executive: risk management	677

(1) *The CFO is within the 5-year window period after appointment to the position.*

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director actual fees (as approved at the previous AGM)

Non-executive directors received no other remuneration or benefits beside directors' fees. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

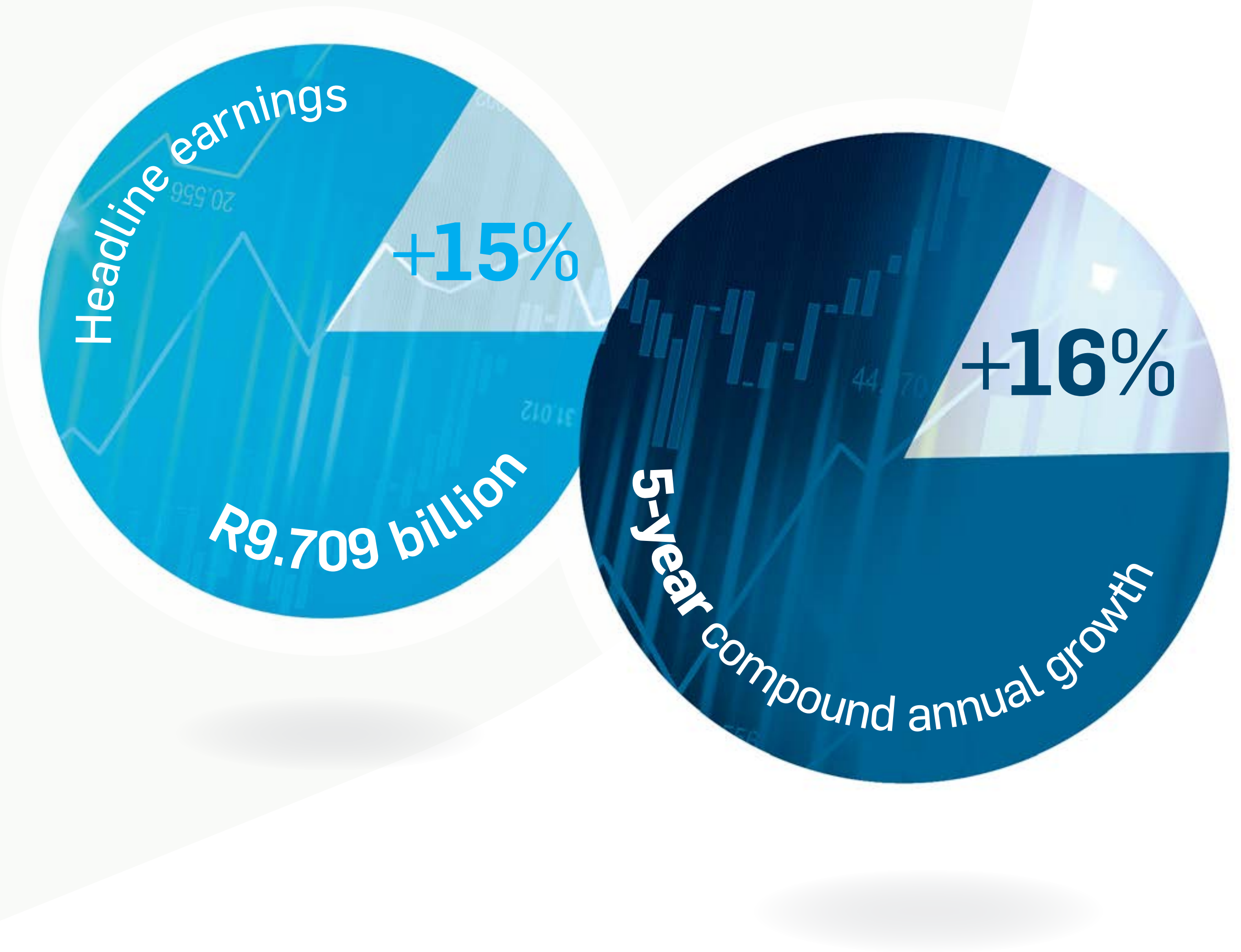
For the financial year, non-executive director fees were as follows (excluding any reimbursement and VAT):

Non-executive directors R'000	2023	2022	Change %
SL Botha (*chairman*)	**4 393**	3 250	35
SA du Plessis	**1 417**	1 210	17
MS du Pré le Roux	**580**	549	6
CH Fernandez	**941**	735	28
V Mahlangu	**1 268**	1 199	6
TE Mashilwane	**1 136**	988	15
JD McKenzie[(1)]	**—**	219	(100)
DP Meintjes	**1 029**	950	8
PJ Mouton	**920**	799	15
CA Otto	**951**	973	(2)
JP Verster	**1 665**	1 310	27
Total	**14 300 000**	12 182 000	17

(1) *Mr JD McKenzie retired on 28 May 2021.*

04

annual financial statements



The preparation of the Capitec Bank Holdings Limited consolidated and separate annual financial statements was supervised by the chief financial officer (CFO), Grant Hardy CA(SA).

Directors' responsibility statement

Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group)

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec, comprising the statements of financial position as at 28 February 2023, the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and the notes to the annual financial statements which include a summary of significant accounting policies and other explanatory notes.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, the Banks Act, Act 94 of 1990 (Banks Act) and the requirements of the Companies Act, Act 71 of 2008 (Companies Act).

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group and company at year-end.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the annual financial statements comply with relevant legislation.

Capitec operates in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled. The executive directors and management of Capitec are responsible for the control over and security of the website and, specifically, for establishing and controlling the process for electronically distributing annual reports and other financial information to shareholders.

The consolidated annual financial statements were prepared on a going concern basis. Based on their assessment, the directors have no reason to believe that the group or any company in the group will not continue as a going concern in the foreseeable future. The directors reviewed the group budget and cash flow forecasts for the next 3 years and considered current and anticipated economic conditions. The impact of the macroeconomic environment on the group's capital, funding and liquidity requirements was considered and remained within internal targets and above regulatory requirements.

The directors also prepared the directors' report and the other information included in the integrated annual report and are responsible for both their accuracy and consistency with the annual financial statements.

The group adhered to the Code of Corporate Practices and Conduct.

The group's external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche (Deloitte), audited the annual financial statements and their report is presented on pages 139 to 145.

The annual financial statements set out on pages 146 to 295 were approved by the board of directors and signed on its behalf on 18 April 2023 by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Chief executive officer's and Chief financial officer's responsibility statement

Each of the directors, whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 146 to 295, fairly present, in all material respects, the financial position, financial performance and cash flows of the issuer in terms of IFRS
- to the best of our knowledge and belief, no facts have been omitted, or untrue statements made, that would make the annual financial statements false or misleading
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries has been provided to effectively prepare the financial statements of the issuer
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls
- where we are not satisfied, we have disclosed to the audit committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies
- we are not aware of any fraud involving directors.

Gerrie Fourie
Chief executive officer

Grant Hardy
Chief financial officer

18 April 2023

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec, that for the year ended 28 February 2023, the company has filed all required returns and notices in terms of the Companies Act, and that all such returns and notices are to the best of my knowledge and belief true, correct and up-to-date.

Yolande Mouton
Company secretary

18 April 2023

Audit committee's report

Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group)

The Capitec audit committee (the committee) is an independent statutory committee appointed by the board of directors in terms of section 64 of the Banks Act and section 94 of the Companies Act, to the extent applicable.

The committee comprises 3 independent non-executive directors. The members have the necessary experience and expertise to direct the committee in the execution of its duties. 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.

The committee conducted its affairs in compliance with and discharged its responsibilities in terms of its charter for the year ended 28 February 2023.

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

- Satisfied itself that the external audit firms and designated audit partners are independent of the group or any company in the group, as set out in section 94(8) of the Companies Act, and are suitable for reappointment by considering, *inter alia*, the latest Independent Regulatory Board for Auditors inspection findings report and 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 auditors' engagement letter, terms, audit plan and budgeted fees for the 2023 financial year
- Approved the nature and extent of non-audit services that the external auditors may provide and confirmed that the non-audit services did not compromise the external auditors' independence
- Nominated, for election at the annual general meeting (AGM), PwC and Deloitte as the external audit firms
- Resolved that it be recommended to shareholders at the 2024 AGM that KPMG Inc. be appointed as joint auditor in respect of the 2025 financial year. The appointment is subject to the approval of the Prudential Authority (PA). PwC is required to step down as joint auditor after the conclusion of the 2024 financial year audit in terms of the mandatory audit firm rotation rule of the Independent Regulatory Board for Auditors
- 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 and separate annual financial statements for the year ended 28 February 2023 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
- Satisfied itself as to the performance and quality of the 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 year under review:

- Considered the information 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 14 April 2023, 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 internal audit plan
- Considered the internal audit reports submitted to the committee and noted the annual conclusion on the adequacy and effectiveness of the system of internal controls, risk management and governance
- Reviewed the reports from the external auditors and reported on the findings at board meetings
- Satisfied itself, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, that appropriate financial reporting procedures exist and are working, including consideration of all the entities included 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

18 April 2023

Directors' report

To the shareholders of Capitec Bank Holdings Limited (Capitec or the group)

The directors present their report to shareholders for the year ended 28 February 2023.

Nature of the business

Capitec 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 on the JSE on 18 February 2002.

The company holds 100% of its principal subsidiaries, Capitec Bank Limited, Capitec Ins Proprietary Limited and Capitec Bank Insurance Holdings Limited. Capitec Bank Limited is a leading South African retail and business bank which focuses on essential banking services and provides innovative savings, transacting and lending products to individuals and small- and medium-sized businesses. The cell captive arrangements, which were transferred to Capitec Ins Proprietary Limited by Capitec Bank Limited effective 31 March 2021, enable Capitec Ins Proprietary Limited to provide long-term insurance products to Retail bank clients. Capitec Bank Insurance Holdings Limited holds 100% of Capitec Life Limited. Capitec Life Limited holds a long-term insurance licence but did not operate as an insurance company during the 2023 financial year.

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

Ordinary and preference shares issued

No ordinary shares were issued during the year (2022: 472 852). The number of shares in issue per the shareholders' register amounted to 116 099 843 (2022: 116 099 843). No ordinary shares were repurchased for cancellation during the current or prior year. At the reporting date, the group held 313 979 treasury shares (2022: nil) in Capitec Bank Holdings Limited.

No preference shares were issued during the year. A total of 24 851 (2022: 49 555) preference shares were repurchased.

Dividends to shareholders

The following dividends were declared for the current and previous years:

	Dividends per share (cents) 2023	**Dividends per share (cents) 2022**
Ordinary dividend		
Interim	**1 400**	1 200
Final	**2 800**	2 440
Special dividend	**–**	1 500
Preference dividend		
Interim	**343.08**	294.05
Final	**417.45**	296.91

The final ordinary dividend for 2023 was approved by the directors on 17 April 2023.

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

A special dividend of 1 500 cents per share was declared on 11 April 2022. The distribution was made from income reserves and exchange control approval was obtained.

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.

Notice in terms of section 45(5) of the Companies Act

Capitec and Capitec Bank Limited are required, as an essential part of conducting the business of the group, to provide financial assistance to group companies as part of their day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Companies Act. In accordance with section 45(5) of the Companies Act, shareholders were given notice in the notice of annual general meeting dated 25 April 2023 that the board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Companies Act, and in terms of the special resolution passed, provide such direct or indirect financial assistance to related and interrelated companies as described in section 45 of the Companies Act.

Directors' report continued

Segment information

Refer to note 32 in the notes to the financial statements for the segment information.

Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Directors and company secretary

Information relating to the directors and company secretary is included from pages 55 to 58 of the 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 changes

André du Plessis retired from the board on 30 June 2022. The board thanks André for his diligent service to the group since its formation. Grant Hardy was appointed to the board on 1 July 2022.

Independent auditors' report

To the Shareholders of Capitec Bank Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited (the Company) and its subsidiaries (together the Group) as at 28 February 2023, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Holdings Limited's consolidated and separate financial statements set out on pages 146 to 295 comprise:

- the consolidated and separate statements of financial position as at 28 February 2023;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled *"Integrated Annual Report 2023 Capitec Bank Holdings Limited"*, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).*

Our audit approach

Overview

Overall group materiality

- R610 million, which represents 5% of consolidated operating profit before tax.

Group audit scope

- The group audit scope, in addition to the audit of Capitec Bank Holdings, comprised the following:
  - the Retail bank segment and the Business bank segment of Capitec Bank Limited;
  - the insurance segment of Capitec Ins Proprietary Limited; and
  - the net loans and advances balance relating to Capitec Rental Finance Proprietary Limited.

Key audit matter

- Expected credit losses (ECL) on loans and advances:
  - Retail bank segment; and
  - Business bank segment.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Independent auditors' report continued

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R610 million
How we determined it	Represents 5% of consolidated operating profit before tax.
Rationale for the materiality benchmark applied	We chose consolidated operating profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In addition to a full scope audit of Capitec Bank Holdings which was scoped in for statutory purposes, full scope audits were performed for Capitec Bank Limited and Capitec Ins Proprietary Limited due to their financial significance to the Group. Capitec Bank Limited (which comprises the retail and business bank segments of the Group) and Capitec Ins Proprietary Limited (which comprises the insurance segment of the Group) were scoped in based on the significance of their contribution to the Group's consolidated operating profit before tax and consolidated total assets of the Group.

The net loans and advances balance relating to Capitec Rental Finance Proprietary Limited (a wholly owned subsidiary of Capitec Bank Limited which comprises the Group's rental finance business and forms part of the business banking segment), was also scoped in for group reporting, based on the significance of its contribution to the Group's consolidated total assets.

We performed analytical review procedures on the remaining components which were considered to be financially insignificant.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group joint engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained in order to issue our audit opinion on the consolidated financial statements of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses (ECL) on loans and advances *Refer to note 3 (Critical accounting estimates and judgements in applying accounting policies), note 8 (Net loans and advances), note 2.5.1.2 (Accounting policies – Impairment) and note 33.1 (Credit risk) for the related disclosures.* We determined the ECL assessment for loans and advances to be a matter of most significance to the current year audit due to: • the degree of subjective judgement and estimation applied by management in determining the ECL; and • the magnitude of the ECL recognised in relation to gross loans and advances. ***Retail bank segment*** As at 28 February 2023, gross loans and advances for the Retail bank segment amounted to R82.3 billion, against which an ECL of R18.8 billion was recognised. The ECL for the Retail bank segment is calculated in terms of International Financial Reporting Standards (IFRS) 9 – *Financial Instruments* (IFRS 9). The key areas of significant management judgement and estimation included: • Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in the calculated default risk, beyond determined thresholds as well as future default rates forecast by the forward-looking macroeconomic model. • Determining the write-off point. The Group considers the point at which there is no reasonable expectation of further recovery to be made, when the expected present value of projected future recoveries is less than 5% of the gross balance before write-off. This point is estimated based on recovery estimates that are driven by account status, handover score and consecutive missed payments.	***Retail bank segment*** Making use of our actuarial and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows: ***Evaluation of SICR*** • We recalculated the application of management's SICR thresholds and triggers including the corresponding impact on the ECL by applying the assumptions and data included in management's model. • We assessed the appropriateness of the SICR methodology and tested the resultant transfer rate of SICR accounts into stage 2. This included benchmarking the transfer rate against the volume of up-to-date accounts that went into arrears based on historic trends as well as increases in risk determined by management's forward-looking macroeconomic model. • We performed a sensitivity analysis of SICR to assess the impact of change in SICR thresholds on the ECL recognised. • We evaluated management's validation of the performance of behavioural scores, granting scores and the correlation of these to default rates. • We obtained an understanding of management's process for identifying employer groups under stress and observed that these identified employer groups have been considered in management's calculation of the granting scores. ***Determining of the write-off point*** • We considered historical post write-off recoveries to evaluate the reasonableness of management's assessment which indicates that the current write-off point is still the point at which there was no reasonable expectation of further recovery. • Through recalculation, we tested the application of the IFRS 9 write-off policy. We also evaluated whether post write-off recoveries have been excluded from the LGD calculation and therefore do not impact on ECL.

Independent auditors' report continued

Key audit matter	How our audit addressed the key audit matter
• Utilising a five-year macroeconomic outlook of three scenarios (baseline, positive and negative scenario) and associated probability weightings to project future changes in the selected macroeconomic variables. These are provided by the Bureau for Economic Research (BER) and approved by the Asset and Liability Committee (ALCO). The scenarios are then linked to Probability of Defaults (PDs) to derive a forward-looking ECL. • Selection of macroeconomic variables per 12 client risk segments and correlation of changes and lags in these variables, along with their associated weighting, to forecast default rates to derive a forward-looking ECL. The correlation considers that certain variables and lags are more appropriate than others, depending on the clients' risk segment. • Calibrating of the ECL statistical model components (Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD)) used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Group stratifies aspects such as client risk segments, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status and the behaviour score of the client. Management judgement is required to consider how historical data is used to project ECL.	***Inclusion of the impact of forward-looking information and macroeconomic variables in the ECL*** • We considered the assumptions used in the forward-looking macroeconomic model, specifically around the forward-looking scenarios used, the macroeconomic variables and outlook considered for each scenario as well as the probability weighting of each scenario for reasonableness. We discussed these with management and compared these to our own and benchmarked economic forecasts and independent market data. • We assessed the reasonability of the selection of the macroeconomic variables for each of the 12 client risk segments. This included independent reperformance of the statistical model for each segment, assessment of the reasonability of the variables and lags selected for each segment and consistency between segments. The forecasted default rates were also considered in the context of recent and historic actual default rates of each segment to ensure that forecasts were aligned to the macroeconomic outlook in the scenarios. ***Calibrating of ECL statistical model components (PD, EAD, LGD)*** • Through discussion with management and inspection of documentation, we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. • Through our independent reperformance and backtesting of the ECL model, we assessed the model components and how these calibrated to use historical information to estimate future cash flows.

Key audit matter	How our audit addressed the key audit matter
Business bank segment As at 28 February 2023, gross loans and advances for the Business bank segment amounted to R15.5 billion, against which an ECL of R0.8 billion was recognised. The ECL for the Business bank segment is calculated in terms of IFRS 9. The key areas of significant management judgement and estimation included: • Determining whether evidence exists that there has been a SICR since initial recognition of the financial instrument, by considering adverse changes in the performance or business of borrowers. • Utilising a five-year macroeconomic outlook of three scenarios (baseline, positive and negative scenario) and associated probability weightings to project future changes in the selected macroeconomic variables. These are provided by the Bureau for Economic Research (BER) and approved by the Asset and Liability Committee (ALCO). The scenarios are then linked to Probability of Defaults (PDs) to derive a forward-looking ECL. • Selection of macroeconomic variables and correlation of changes in these variables, along with their associated weighting, to forecast default rates to derive a forward-looking ECL. In respect of the LGD parameter, LGDs are stressed using historically observed losses to apply specific collateral haircuts. • Determining event driven management ECL overlays. Management increases the results produced by the modelled output for events that influence the ECL, which are not yet captured by the model. This arises from specific events that increase client specific risk or collateral recovery expectations. • Calibrating of the ECL statistical model components (Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD)) used to estimate the timing and amount of the forecasted cash flows based on historical default data roll rates and recoveries. The Group stratifies aspects such as client risk segments, product type and the behaviour score of the client. Management judgement is required to consider how historical data is used to project ECL.	***Business bank segment*** Making use of our actuarial and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows: ***Evaluation of SICR*** • We recalculated the impact of SICR, applying the assumptions and data included in management's model, including the performance of rehabilitated accounts. • We tested the SICR triggers applied and the resultant transfer into stage 2 for SICR. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 based on history. • Through discussion with management, we obtained an understanding of management's process for identifying customers under stress and how these drive additional ECL overlays and/or stage migrations. ***Inclusion of the impact of forward-looking information and macroeconomic variables in the ECL*** • We considered the assumptions used in the forward-looking macroeconomic model, specifically around the forward-looking scenarios used, the macroeconomic variables and outlook considered for each scenario as well as the probability weighting of each scenario for reasonableness. We discussed these with management and compared these to our own and benchmarked economic forecasts and independent market data. • We tested the performance and sensitivity of the forward-looking macroeconomic model in order to evaluate whether the chosen macroeconomic factors and model structure provides a reasonable representation of the impact of macroeconomic changes on the ECL and baseline information built into the forward-looking macroeconomic model. ***Event driven management overlays in the ECL*** • We assessed the reasonableness of the increase in ECL for specific expected deterioration in collateral recovery rates and performed haircut stresses on the collateral. • We evaluated whether this was subject to an appropriate governance process. ***Calibrating of ECL statistical model components (PD, EAD, LGD)*** • Through discussion with management and inspection of documentation, we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. • Through our independent reperformance and backtesting of the ECL model, we assessed the model components and how these calibrated to use historical information to estimate future cash flows.

Independent auditors' report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "*Integrated Annual Report 2023 Capitec Bank Holdings Limited*", which includes the Directors' report, the Audit committee's report and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and Deloitte & Touche have been the joint auditors of Capitec Bank Holdings Limited for 3 years. Prior to the commencement of the joint audit relationship PricewaterhouseCoopers Inc. was the sole auditor of Capitec Bank Holdings Limited for 19 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane
Waterfall City
South Africa

18 April 2023

Deloitte & Touche

Deloitte & Touche
Per Partner: Darren Shipp
Registered Auditor

Johannesburg
5 Magwa Crescent
Waterfall City
South Africa

Statements of financial position

As at 28 February 2023

R'000	Note	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Assets					
Cash and cash equivalents	4	31 013 939	34 238 828	9 633	727 055
Financial assets at fair value through profit or loss (FVTPL)	5	289 051	—	—	—
Financial investments at amortised cost	6	61 034 237	62 939 724	—	—
Term deposit investments	7	3 628 162	722 190	—	—
Net loans and advances	8	78 167 803	66 549 103	—	—
Other receivables	9	6 429 195	3 284 984	2 727	2 134
Net insurance receivable	10	1 509 371	677 935	—	—
Derivative assets	42	33 555	14 586	—	—
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	11	73 880	72 680	—	—
Current income tax asset	36	40 701	—	—	—
Interest in associates and joint ventures	12	600 068	394 346	242 391	242 391
Interest in subsidiaries	12	—	—	6 018 182	6 020 425
Property and equipment	13	3 291 918	3 021 555	—	—
Right-of-use assets	14	1 821 415	1 909 435	—	—
Intangible assets including goodwill	15	1 435 629	1 348 005	—	—
Deferred income tax asset	16	2 431 699	2 769 410	—	—
Total assets		191 800 623	177 942 781	6 272 933	6 992 005
Liabilities					
Derivative liabilities	42	23 683	33 848	—	—
Current income tax liability	36	—	301 951	—	—
Deposits	17	144 059 409	132 398 377	—	—
Wholesale funding	17	2 438 794	2 060 193	—	—
Other liabilities	18	3 874 119	4 745 859	12 708	10 525
Lease liabilities	19	2 305 062	2 424 694	—	—
Employee benefit liabilities	21	14 622	212 144	—	—
Group loans payable	12	—	—	24 405	13 680
Total liabilities		152 715 689	142 177 066	37 113	24 205
Equity					
Capital and reserves					
Ordinary share capital and premium	22	5 406 108	5 649 020	5 649 020	5 649 020
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	491 978	491 978
Cash flow hedge reserve	23	1 544	(12 405)	—	—
Other reserves	23	(25 371)	(28 625)	—	—
Foreign currency translation reserve	23	77 610	31 438	—	—
Share option reserve	23	515 809	515 809	23 831	23 831
Retained earnings		33 060 310	29 559 311	22 067	751 804
Share capital and reserves attributable to ordinary shareholders		39 036 010	35 714 548	6 186 896	6 916 633
Preference share capital and premium	22	48 924	51 167	48 924	51 167
Total equity		39 084 934	35 765 715	6 235 820	6 967 800
Total equity and liabilities		191 800 623	177 942 781	6 272 933	6 992 005

Income statements

Year ended 28 February 2023

R'000	Note	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Lending, investment and insurance income	24	24 175 550	19 962 749	437	479
Interest income calculated using the effective interest rate	24	20 783 348	17 454 315	437	479
Interest income on financial assets at FVTPL	24	415 915	—	—	—
Loan fee income	24	1 087 787	968 856	—	—
Net insurance income	24	1 888 500	1 539 578	—	—
Lending and investment expenses	24	(7 001 785)	(4 856 145)	—	—
Interest expense	24	(6 992 691)	(4 837 898)	—	—
Loan fee expense	24	(9 094)	(18 247)	—	—
Net lending, investment and insurance income		17 173 765	15 106 604	437	479
Transaction fee and commission income	24	16 561 749	14 533 033	—	—
Transaction fee and commission expense	24	(5 100 638)	(4 018 567)	—	—
Net transaction and commission income	24	11 461 111	10 514 466	—	—
Foreign currency income		494 778	497 605	—	—
Foreign currency expense		(332 348)	(353 212)	—	—
Net foreign currency income		162 430	144 393	—	—
Dividend income	25	—	—	5 483 683	3 754 657
Funeral plan income	9	1 430 912	905 847	—	—
Other income		79 200	290 024	4 096	6 181
Credit impairments	26	(6 329 385)	(3 507 754)	—	—
Net income		23 978 033	23 453 580	5 488 216	3 761 317
Operating expenses	27	(11 876 702)	(12 555 023)	(4 544)	(7 907)
Share of net profit of associates and joint ventures	12	97 750	36 189	—	—
Operating profit before tax		12 199 081	10 934 746	5 483 672	3 753 410
Income tax expense	28	(2 491 811)	(2 407 724)	(9 195)	(22)
Profit for the year		9 707 270	8 527 022	5 474 477	3 753 388
Earnings per share (cents)					
Basic	29	8 415	7 371		
Diluted	29	8 392	7 360		

Statements of other comprehensive income

Year ended 28 February 2023

R'000	Note	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Profit for the year		9 707 270	8 527 022	5 474 477	3 753 388
Other comprehensive income that may subsequently be reclassified to profit or loss		60 121	(2 014)	—	—
Cash flow hedge reserve recognised	23	9 129	568	—	—
Cash flow hedge reclassified to profit or loss	23	10 215	22 819	—	—
Income tax relating to cash flow hedge	23	(5 395)	(6 548)	—	—
Foreign currency translation reserve recognised	23	46 172	(18 853)	—	—
Other comprehensive income that will not subsequently be reclassified to profit or loss		3 254	7 024	—	—
Remeasurement of defined benefit obligation	20	3 226	679	—	—
Profit on remeasurement to fair value of financial assets (FVOCI)	23	1 201	6 825	—	—
Income tax thereon	23	(1 173)	(480)	—	—
Total comprehensive income for the year		9 770 645	8 532 032	5 474 477	3 753 388

Statements of changes in equity

Year ended 28 February 2023

GROUP

R'000	Note	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Share option reserve	Retained earnings	Total
Balance as at 28 February 2021		5 649 020	55 641	50 291	(29 244)	(35 649)	—	24 225 346	29 915 405
Total comprehensive income for the year		—	—	(18 853)	16 839	7 024	—	8 527 022	8 532 032
Transactions with shareholders and directly recorded in equity		—	(4 474)	—	—	—	515 809	(3 193 057)	(2 681 722)
Ordinary dividend	36.5	—	—	—	—	—	—	(3 237 556)	(3 237 556)
Preference dividend	36.5	—	—	—	—	—	—	(3 207)	(3 207)
Employee share option scheme: value of employee services	27	—	—	—	—	—	—	54 272	54 272
Shares acquired for employee share options at cost	36.8	—	—	—	—	—	—	(68 680)	(68 680)
Proceeds on settlement of employee share options	36.8	—	—	—	—	—	—	55 884	55 884
Fair value of shares utilised for net settlement		—	—	—	—	—	—	(45 574)	(45 574)
Tax effect on share options		—	—	—	—	—	—	52 513	52 513
Preference shares repurchased		—	(4 474)	—	—	—	—	(709)	(5 183)
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	—	—	—	515 809	—	515 809
Balance as at 28 February 2022		5 649 020	51 167	31 438	(12 405)	(28 625)	515 809	29 559 311	35 765 715
Total comprehensive income for the year		—	—	46 172	13 949	3 254	—	9 707 270	9 770 645
Transactions with shareholders and directly recorded in equity		(242 912)	(2 243)	—	—	—	—	(6 206 271)	(6 451 426)
Ordinary dividend	36.5	—	—	—	—	—	—	(6 187 142)	(6 187 142)
Preference dividend	36.5	—	—	—	—	—	—	(4 185)	(4 185)
Employee share option scheme: value of employee services	27	—	—	—	—	—	—	165 228	165 228
Shares acquired for employee share options at cost	36.8	(16 332)	—	—	—	—	—	(157 300)	(173 632)
Proceeds on settlement of employee share options	36.8	—	—	—	—	—	—	78 831	78 831
Fair value of shares utilised for net settlement	36.8	—	—	—	—	—	—	(59 004)	(59 004)
Tax effect on share options		—	—	—	—	—	—	(42 402)	(42 402)
Preference shares repurchased		—	(2 243)	—	—	—	—	(297)	(2 540)
Treasury shares	22	(226 580)	—	—	—	—	—	—	(226 580)
Balance as at 28 February 2023		5 406 108	48 924	77 610	1 544	(25 371)	515 809	33 060 310	39 084 934
Note		22	22	23	23	23	23		

Statements of changes in equity continued

Year ended 28 February 2023

R'000	Note	COMPANY Ordinary share capital and premium	Preference share capital and premium	Share option reserve	Izindaba Ezinhle Employee Share Scheme	Retained earnings	Total
Balance as at 28 February 2021		5 649 020	55 641	—	—	239 888	5 944 549
Total comprehensive income for the year		—	—	—	—	3 753 388	3 753 388
Transactions with shareholders and directly recorded in equity		—	(4 474)	23 831	491 978	(3 241 472)	(2 730 137)
Ordinary dividend	36.4	—	—	—	—	(3 237 556)	(3 237 556)
Preference dividend	36.4	—	—	—	—	(3 207)	(3 207)
Preference shares repurchased		—	(4 474)	—	—	(709)	(5 183)
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	—	491 978	—	491 978
Izindaba Ezinhle Employee Share Option Scheme	39.2	—	—	23 831	—	—	23 831
Balance as at 28 February 2022		**5 649 020**	**51 167**	**23 831**	**491 978**	**751 804**	**6 967 800**
Total comprehensive income for the year		—	—	—	—	**5 474 477**	**5 474 477**
Transactions with shareholders and directly recorded in equity		—	**(2 243)**	—	—	**(6 204 214)**	**(6 206 457)**
Ordinary dividend	36.4	—	—	—	—	**(6 199 732)**	**(6 199 732)**
Preference dividend	36.4	—	—	—	—	**(4 185)**	**(4 185)**
Preference shares repurchased		—	**(2 243)**	—	—	**(297)**	**(2 540)**
Balance as at 28 February 2023		**5 649 020**	**48 924**	**23 831**	**491 978**	**22 067**	**6 235 820**
Note		22	22	23	39.2		

Statements of cash flows

Year ended 28 February 2023

R'000	Note	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Cash flows from operating activities					
Cash flow from operations[1]	36.1	**(6 679 900)**	5 032 379	**(2 643)**	356
Income tax paid	36.2	**(2 545 722)**	(2 844 582)	**(9 195)**	(22)
Interest received[1]	36.9	**20 438 606**	16 680 581	**437**	479
Interest paid[1]	36.10	**(6 958 102)**	(4 852 841)	—	—
Dividend received[1]		—	—	**5 483 683**	3 754 657
		4 254 882	14 015 537	**5 472 282**	3 755 470
Cash flows from investing activities					
Acquisition of property and equipment	13	**(934 422)**	(745 552)	—	—
Disposal of property and equipment	13	**16 826**	10 810	—	—
Acquisition of intangible assets	15	**(228 841)**	(116 988)	—	—
Loans to group companies – granted		—	—	—	(1 115 186)
Loans to group companies – repaid		—	—	—	1 115 186
Disposal of preference shares in subsidiary		—	—	**2 243**	4 474
Investment in term deposit investments	7	**(3 650 000)**	(1 200 000)	—	—
Redemption of term deposit investments	7	**900 000**	800 000	—	—
Acquisition of financial investments at amortised cost	6	**(47 216 977)**	(63 671 460)	—	—
Redemption of financial investments at amortised cost	6	**49 652 992**	36 477 246	—	—
Redemption of financial assets at FVTPL	5	—	2 960 220	—	—
Decrease in short-term money market investments		—	11 511	—	—
Acquisition of financial investments at FVOCI	11	—	(1 725)	—	—
Interest acquired in associates and joint ventures	12	**(61 800)**	—	—	—
Acquisition of subsidiary net of cash acquired	12	—	—	—	(292 000)
Insurance recovery – civil unrest	43	—	198 292	—	—
		(1 522 222)	(25 277 646)	**2 243**	(287 526)
Cash flows from financing activities					
Dividends paid	36.5	**(6 189 475)**	(3 238 052)	**(6 200 132)**	(3 238 052)
Loans from group companies – granted	36.6	—	—	**22 187**	1 136 077
Loans from group companies – repaid	36.6	—	—	**(11 462)**	(1 139 100)
Preference shares repurchased	22	**(2 540)**	(5 183)	**(2 540)**	(5 183)
Issue of institutional bonds and other funding	17	**750 000**	750 000	—	—
Redemption of institutional bonds and other funding	17	—	(1 000 000)	—	—
Payment of lease liabilities	36.7	**(370 303)**	(320 117)	—	—
Shares acquired for settlement of employee share options	36.8	**(111 234)**	(17 452)	—	—
Participants' contribution on settlement of options	36.8	**34 146**	20 773	—	—
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	—	491 978
Treasury shares repurchased	22	**(120 593)**	—	—	—
		(6 009 999)	(3 810 031)	**(6 191 947)**	(2 754 280)
Effect of exchange rate changes on cash and cash equivalents		**52 198**	2 772	—	—
Net (decrease)/increase in cash and cash equivalents		**(3 225 141)**	(15 069 368)	**(717 422)**	713 664
Cash and cash equivalents at the beginning of the year	4	**34 239 828**	49 309 196	**727 055**	13 391
Cash and cash equivalents at the end of the year	4	**31 014 687**	34 239 828	**9 633**	727 055

[1] *Interest received, interest paid and dividends received were previously disclosed in the cash flow from operations line and then disaggregated in the related note. Comparatives have been updated for this more granular presentation.*

Notes to the financial statements

Year ended 28 February 2023

1. General information

1.1 Nature of the business

The company's main business is that of a bank controlling company as envisaged in the Banks Act. The company's subsidiaries conduct retail and business banking, rental financing, hold insurance cell captives and an insurance licence for life products which is not yet in use.

1.2 Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the statements of financial position, income statements, statements of other comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto.

The group's earnings attributable to ordinary and preference shareholders amounted to R9 707.3 million (2022: R8 527.0 million).

1.3 Overall application of the going concern principle

The directors reviewed the group budget and cash flow forecasts for the next 3 years and considered the group's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and cash flow forecasts took the impact of the current global macroeconomic environment into consideration, including projections of the impact on the group's capital, funding and liquidity requirements, all of which have remained within internal targets and above regulatory requirements.

Forecast earnings growth and risk-weighted assets are based on the group's macroeconomic outlook and are evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies.

The expected outcomes and constraints are then stress tested and the group sets targets through different business cycles and scenarios. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the financial statements.

1.4 Directors and company secretary

Information relating to the directors and company secretary is presented in the directors' report and statutory information.

1.5 Group details

The group's place of domicile and country of incorporation is the Republic of South Africa and it has a primary listing on the JSE.

Registered office: 5 Neutron Road, Techno Park, Stellenbosch, 7600.

2. Accounting policies

The significant accounting policies applied in the preparation of these consolidated and separate financial statements are set out below and in the relevant notes to the financial statements. These policies were applied consistently to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 Compliance with IFRS

The group's consolidated and company's separate financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), the IFRS Interpretations Committee interpretations, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3 to the financial statements.

The accounting policies applied are consistent with the prior year financial statements with the exception of the addition of policies to account for new sources of revenue. Refer to notes 2.18.3 and 2.18.4.

Refer to note 2.20 for standards, interpretations and amendments to published standards applied for the first time during the current year and to note 2.21 for detail on the group's implementation of standards, interpretations and amendments to published standards not yet effective.

In the notes to the financial statements, amounts denoted as current are expected to be recovered/settled no more than 12 months after the reporting period. Amounts denoted as non-current are expected to be recovered more than 12 months after the reporting period.

2.1.2 Historical cost convention

The consolidated and separate financial statements have been prepared on a historical cost basis, except for the revaluation of financial instruments held at FVTPL and instruments carried at FVOCI.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company, its subsidiaries, associates, joint ventures and the share incentive trust.

2.2.1 Subsidiaries

Subsidiaries are entities (including structured entities) that are controlled by the company. Control is achieved when the company:

- has power over the entity
- is exposed, or has rights, to variable returns from its involvement with the entity
- has the ability to use its power to affect returns.

Consolidation begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

The company accounts for investments in subsidiaries at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Currently, the group does not have non-controlling interests as all subsidiaries are wholly-owned by the company.

2.2.2 Associates and joint arrangements

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control over those policies. Significant influence is generally accompanied by a shareholding that entitles the group to between 20% and 50% of the voting rights of the associate. Where the group's shareholding is less than 20%, other indicators, such as the right to representation on decision-making boards or committees, are considered.

The group's investment in associates includes the difference in initial cost versus its share of net assets acquired and any accumulated impairment loss.

A joint arrangement is an arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11 *Joint Arrangements*. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.2 Basis of consolidation continued

2.2.2 Associates and joint arrangements continued

An investment in an associate or joint venture is recognised at cost by the company and is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment is initially recognised at cost and the carrying amount is subsequently adjusted to recognise the group's share of post-acquisition profits or losses and other comprehensive income. Distributions received from the associate or joint venture reduce the carrying amount of the investment.

When the group's share of losses of an associate or joint venture equals or exceeds its interest, including any other unsecured long-term receivables in the associate or joint venture, the group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the group incurs legal or constructive obligations or makes payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

The group determines at each reporting date whether there is objective evidence that any investment in the associates or joint ventures is impaired. If this is the case, the difference between the recoverable amount of the associate or joint venture and its carrying value is recognised in the income statement. Impairments that have been recognised are reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. The increased carrying amount of the associate or joint venture shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination comprises the fair values of the assets transferred, the liabilities assumed, the equity interests issued by the group and the fair value of any contingent consideration arrangements. If the contingent consideration is classified as equity, it is not subsequently remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Acquisition costs, other than those associated with the issue of debt or equity securities, are recognised in profit or loss as incurred.

The identifiable assets acquired and the liabilities and contingent liabilities assumed that meet the conditions for recognition in accordance with IFRS 3 *Business Combinations* are recognised at their fair value at the date of acquisition, except for:

- deferred tax assets or liabilities, which are recognised and measured in accordance with IAS 12 *Income Taxes* and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 *Employee Benefits*
- liabilities or equity instruments that relate to the replacement, by the group, of an acquired entity's share-based payment awards, which are measured in accordance with IFRS 2 *Share-based Payment*
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

2.3.1 Goodwill

Goodwill in a business combination is recognised at the acquisition date when the consideration transferred and the recognised amount of non-controlling interests exceed the fair value of the identifiable net assets of the entity acquired. If the consideration transferred is lower than the fair value of the identifiable net assets of the acquired entity (a bargain purchase), the difference is recognised in the income statement. The gain or loss arising on the disposal of an entity is calculated after consideration of attributable goodwill.

2.3.2 Business combinations under common control

Transactions in which the assets and liabilities are transferred from a subsidiary to its parent are referred to as a hive-up. Such transactions are generally scoped out of IFRS 3 *Business Combinations*. Capitec developed its own accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The substance of the hive-up is a common control transaction because the group is in the same position before and after the transaction and, on that basis, predecessor accounting was applied.

The prospective presentation method was applied and, as such, the acquired entity's results and statement of financial position are incorporated prospectively from the date on which the business combination between entities under common control occurred.

The assets and liabilities of the acquired entity are stated at predecessor carrying values in the acquirer's financial statements. As Capitec elected to carry the assets and liabilities at predecessor values, there was no need to do fair value measurements. Predecessor carrying values are the carrying values related to the acquired entity. They are selected as the carrying amounts of assets and liabilities of the acquired entity from the consolidated annual financial statements.

These amounts include any goodwill (as recognised in the consolidated annual financial statements at the date of transfer), and other fair value adjustments, recorded at the consolidated level in respect of the acquired entity.

No new goodwill arises in predecessor accounting.

Any increase/decrease in the net assets in the consolidated annual financial statements of the acquired entity (i.e. the difference between the carrying amount of net assets of the acquired entity in the consolidated annual financial statements at the date of transfer and the fair value of net assets acquired at the date of original external acquisition) would be recorded in equity in retained earnings.

The investment in the acquired entity is derecognised.

2.4 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition. Cash and cash equivalents are stated at amortised cost which approximates fair value due to the short-term nature of these instruments.

They include: cash, amounts due from local and foreign banks, resale agreements, fixed and notice deposits with original maturities less than 3 months, balances with central banks, treasury bills, debentures and other eligible bills, and government securities that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments purchased from external banks for cash under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of less than 3 months, including government bonds, are included under cash and cash equivalents when they are subject to insignificant changes in value. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

Mandatory reserve deposits with the South African Reserve Bank (SARB)

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations imposed by the central bank. These deposits bear no interest and may be used to manage significant intraday and inter-day cash outflows but are not considered as available for normal cash planning purposes. A total of 70% of the balance is available without requiring prior regulatory approval.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments

2.5.1 Financial assets

The group recognises financial assets in the statement of financial position when it becomes a party to the contractual terms of the financial instrument.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs on financial assets carried at FVTPL are recognised immediately in profit or loss.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or where the group has transferred substantially all risks and rewards of ownership of the asset to another entity.

The group classifies its financial assets on the basis of its business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The group assesses its business model by portfolio of financial assets that are managed together and evaluates the following factors:

- How the performance of the portfolio is evaluated and reported to group management
- How the portfolio managers (if applicable) are compensated, including whether management is compensated based on the fair value of the assets or the contractual cash flow collected
- The risks that affect the performance of the business model and how those risks are managed
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectation of future sale activities.

The contractual cash flow characteristics are evaluated based on whether the contractual cash flows consist of solely payments of principal and interest (SPPI). This assessment includes assessing whether the financial asset has a contractual term that would change the timing or amount of contractual cash flows. The group considers whether the contractual cash flows are subject to any contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and features that would modify the consideration of the time value of money.

The group classifies its financial assets into the following categories:

- Measured at amortised cost
- Fair value through other comprehensive income
- Fair value through profit or loss.

2.5.1.1 Nature and subsequent measurement

Subsequent to initial measurement, financial assets are classified into categories and measured at either amortised cost or fair value as follows:

Amortised cost

These classes of debt instruments are held for the collection of their contractual cash flows which represent SPPI. Interest income from these financial assets is recognised in interest income through profit or loss using the effective interest rate method. Impairment losses are presented as part of the credit impairment charge in the income statement.

The following items are the significant debt instruments held:

(i) Loans and advances to clients that are recognised when funds are advanced to the borrowers.

Loan consolidations are treated as a derecognition of the loans as the contractual cash flows from the financial asset expire.

In instances where the group reschedules a credit agreement, the cash flows are renegotiated with the client, but the internal rate of return remains the same and there are therefore no gains or losses.

When a client goes into debt review, cash flows are renegotiated and, in some instances, the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 8.

(ii) Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments.

They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than 3 months, deposit investments and deposits that have effective contractual notice periods greater than 3 months.

For cash flow purposes, fixed and term notice deposits are classified as investing activities as they are not held to meet the liquid asset requirement.

(iii) Financial investments that consist of government bonds, treasury bills and negotiable certificates of deposit.

These investments are measured at amortised cost subject to impairment.

For cash flow purposes, investments in treasury bills, government bonds and negotiable certificates of deposit are classified as investing activities by Capitec Bank Limited as they are held to maturity and minimal amounts are held to meet the liquid asset requirement.

(iv) Other receivables that comprise settlement balances with the regulator, prepayments, deposits that meet the definition of financial assets and other receivables.

These classes of debt instruments are held for the collection of their contractual cash flow and their cash flows represent SPPI and are therefore measured at amortised cost. Interest income from these financial assets is included in interest income on the group's income statement using the effective interest rate method. Impairment losses are presented as part of the credit impairment charge on the group's income statement.

Fair value through other comprehensive income

The following item is the only significant equity instrument of the group:

(i) Equity investment in African Bank Holdings Limited

The group elected to irrevocably designate its equity investment at FVOCI. This election results in fair value gains and losses being recognised in other comprehensive income and not subsequently being reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on such investments, continue to be recognised through profit or loss when the group's right to receive such payments is established. Refer to note 11.

Notes to the financial statements continued
Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.1 Nature and subsequent measurement continued

Fair value through profit or loss

The following items are the only significant financial instruments held at FVTPL:

(i) Derivative assets and derivative liabilities

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks. Currently, derivatives are limited to interest rate swaps and forward exchange contracts.

Derivatives are only held to cover economic exposures. The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions of the group. The group also facilitates the process for clients of the Business bank to enter into forward exchange contracts.

Derivative financial instruments exclude equity instruments that are accounted for in terms of IFRS 2 *Share-based Payment*.

Derivatives are classified as held for trading and measured at FVTPL to the extent that they are not part of a designated hedging relationship. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. Transaction costs are expensed. The recognition of the resulting gain or loss depends on whether the derivative is designated and effective as a hedging instrument and, if so, the nature of the item being hedged.

All derivative contracts are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Fair values are obtained from quoted market prices, where available. Alternatively, valuation techniques based on observable market prices are used where possible, failing which, estimates are used.

Interest rate swaps are valued on a discounted cash flow (DCF) basis using yield curves appropriate for the relevant swap rate.

(ii) Financial assets at FVTPL

Financial assets at FVTPL consist of investments in money market funds and collective investment schemes (CIS) which are classified and measured at FVTPL.

Interest-bearing investments in CIS

The investments in CIS are initially recognised at fair value excluding transaction costs that are directly attributable to the acquisition of the financial asset and are subsequently remeasured at fair value. The fair value adjustments and the interest income received are accounted for in the income statement line item 'Interest income on financial assets at FVTPL'.

Cash flows generated from the investments in CIS are classified as cash flows from investing activities as the investments are held to generate interest income.

Interest-bearing investments in money market funds

The investments in money market funds are initially recognised at fair value excluding transaction costs that are directly attributable to the acquisition of the investment and are subsequently remeasured at fair value. The fair value adjustments and the interest income received are accounted for in the income statement line item 'Interest income on financial assets at FVTPL'.

Cash flows generated from the investments in money market funds are classified as operating cash flows as these cash flows are used to fund the entity's short-term operating commitments.

2.5.1.2 Impairment

The group applied the ECL model to all financial debt instruments that are classified at amortised cost as well as undrawn commitments.

2.5.1.2.1 Recognition

Stage 1

An ECL representing the lifetime cash shortfall arising from possible default events up to 12 months into the future from the reporting date is recognised at the time of initial recognition of the financial debt instruments.

An ECL continues to be determined on this basis until there is a SICR or the financial debt instrument becomes credit-impaired.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the financial debt instrument and the cash flows that the group expects to receive over the contractual life of the financial debt instrument.

(i) Retail bank

Loans and advances

These are loans and advances which are up-to-date with no indication of SICR as well as loans that have been rescheduled from up-to-date or arrears and have been rehabilitated. Clients who applied for debt review more than 12 months ago and remained up-to-date are classified as stage 1 subject to the SICR assessment.

Government interest-bearing debt instruments

In assessing whether the credit risk of an investment in a government debt instrument has increased significantly since initial recognition, the group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields
- The rating agencies' assessment of creditworthiness
- The country's ability to access the capital markets for a new debt issuance
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness, and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country as well as the intention, communicated in public statements, of governments and agencies to access those mechanisms, including an assessment of the depth of mechanisms and the capacity to fulfil the required criteria.

(ii) Business bank

These are loans and advances which are up-to-date or up to 1 month in arrears with no indication of SICR. This includes distressed restructured loans that have rehabilitated.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.1 Recognition continued

Stage 2

The group monitors financial debt instruments subject to the impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. The 12-month ECL is extended to a lifetime ECL for these clients.

(i) Retail bank

The following loans and advances are included in stage 2:

- Up-to-date loans with SICR
- Loans where the forward-looking information indicates SICR
- Loans up to 1 month in arrears
- Loans where clients applied for debt review between 6 and 12 months ago and which are up-to-date.

The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or where specific events have occurred that indicate a SICR.

The Retail bank considers the following to be a SICR for all loans and advances extended to the client:

- Where a client has been reported as being retrenched or unemployed
- Where a client with a term loan that is up-to-date has a credit card which is in arrears or an access facility that has been rescheduled. The term loan is identified as subject to a SICR
- Where a client has a behaviour score that has decreased below the internal SICR threshold set by the bank
- Where a client's employer has been deemed as high risk.

(ii) Business bank

The following loans and advances are included in stage 2:

- Loans that have experienced a SICR since initial recognition
- Loans where the forward-looking information indicates SICR
- Loans that are between 2 and 3 months in arrears
- Up-to-date loans that restructured from up-to-date (not yet rehabilitated)
- Up-to-date loans that restructured from arrears (not yet rehabilitated).

The Business bank segment considers a loan to have experienced a SICR if the borrower is on the watch list and/or meets 1 or more of the following criteria:

- Significant adverse changes in the business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- An actual or expected significant adverse change in the operating results of the borrower
- A significant change in collateral value which is expected to increase the risk of default
- Early signs of cash flow/liquidity problems such as a delay in the servicing of trade creditors/loans.

Irrespective of the outcome of the assessment according to the previous criteria, the Business bank considers a loan to have experienced a SICR if the borrower is more than 1 month past due on their contractual payments.

Stage 3 (credit-impaired assets)

The group defines loans and advances as being credit-impaired when 1 or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Interest on loans and advances categorised as stage 3 is recognised in the income statement net of ECL impairments. A lifetime ECL is applied to stage 3 (credit-impaired) loans.

(i) Retail bank

Loans and advances are considered to be credit-impaired upon the occurrence of any of the following events:

- The client is placed under debt review
- The client is handed over for collection or has another legal status
- The client is in default. Default is defined as the point at which a client is more than 3 months past due on contractual payments
- The client is past due on 2 contractual payments
- The client applied for debt review less than 6 months ago and the loans are currently performing
- The loan was rescheduled from up-to-date and is up-to-date (not yet rehabilitated). Refer to note 2.5.1.2.5 for the definition of rehabilitation
- The loan is currently up to 1 month in arrears and was previously rescheduled but has not rehabilitated. Refer to note 2.5.1.2.5 for the definition of rehabilitation
- The loan was rescheduled from arrears and is up-to-date (not yet rehabilitated).

(ii) Business bank

A financial instrument is defined as being in default, which is aligned to the definition of credit-impaired, when it meets 1 or more of the following criteria:

Quantitative criteria

The borrower is more than 3 months past due on contractual payments.

The borrower meets 'unlikeliness to pay' criteria, which indicate that the borrower is in significant financial difficulty. These are instances where, *inter alia:*

- the borrower is in long-term forbearance
- the borrower is deceased
- the borrower is insolvent
- the borrower is in breach of financial covenant(s)
- an active market for the financial assets has disappeared because of financial difficulty/inability to meet contractual obligations and the borrower is in arrears
- it is becoming probable that the borrower may enter bankruptcy.

2.5.1.2.2 Measurement

The ECL is calculated as an unbiased, probability-weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward-looking.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.2 Measurement continued

The most significant class of financial asset subject to an ECL is loans and advances. The period over which the ECL is calculated is limited to the maximum contractual period.

The ECL calculation is estimated as the excess of the carrying amount above the present value of expected cash flows, discounted using the effective interest rate on the financial instrument as calculated at initial recognition (initiation fee plus interest).

(i) Retail bank

Loans and advances comprise a large number of small, homogeneous assets.

An ECL provisioning model based on historical roll rates using the Markov chain method is used.

The Markov roll rate results are stratified into similar groups to ensure results are stable and appropriate to predict future cash flows for clients with similar characteristics.

Aspects such as client risk groups, time on book, product term, payment frequency (monthly, fortnightly or weekly), default statuses, employment, industry and rescheduling status and the behaviour score of the client are stratified.

Furthermore, the model combines the roll rate matrices with a loan amortisation model on a loan-by-loan basis. The specific features of each loan such as balance, interest rate, fees, remaining term, instalments and arrears status, combined with the roll rates applicable to loans with the same characteristics, enable the group to estimate the expected cash flow and balance amortisation of the loan. The rolled-up results enable the Retail bank segment to analyse portfolio and segmented views.

To determine the ECLs on the credit card portfolio, the group models the probability of an account entering default, the average exposure when an account enters default and the LGD based on historical trends. Clients are grouped together according to similar risk characteristics, and historical default performance is projected into the future on the current non-default portfolio. The expected future incremental loss is discounted to a present value and is used as the impairment on the portfolio.

For loan commitments, the loss allowance is recognised as a provision. For agreements, at a client level, that contain both a drawn and undrawn portion, and the group cannot separately identify the ECLs on the commitment portion from those on the loan component, the ECLs on the undrawn component are recognised together with the drawn component. To the extent that the ECLs exceed the gross carrying amount of the loans at a client level, the excess is recognised as a provision.

Forward-looking economic assumptions are incorporated into the model where relevant and where they influence credit risk. These assumptions are incorporated using the group's most likely forecast for a range of macroeconomic assumptions. 3 forward-looking scenarios are incorporated into the range of reasonably possible outcomes (negative, positive and baseline scenarios).

(ii) Business bank

The extent of the ECL allowance for financial assets measured at amortised cost is calculated using complex models and significant assumptions about future economic conditions and credit behaviour.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These 3 components are multiplied and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

This effectively calculates an ECL for each future month, which is then discounted to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The portfolios are based on product type. The product types include: mortgage loans, current accounts, credit cards, instalment sales and leases, structured loans and medium-term loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis
- For revolving products, the EAD is predicted by adding a 'credit conversion factor' to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default.

The 12-month and lifetime LGDs are determined based on the factors that impact the recoveries made post default:

- For secured products, this is primarily based on collateral type, projected collateral values and time to recovery
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs changes, are monitored and reviewed periodically.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate enough forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

2.5.1.2.3 Impairment – loan write-offs

Write-off is a derecognition event.

Loans and advances are written off when it has been determined that no reasonable expectation of recovery exists.

Notes to the financial statements continued
Year ended 28 February 2023

2. Accounting policies continued
2.5 Financial instruments continued
2.5.1 Financial assets continued
2.5.1.2 Impairment continued
2.5.1.2.3 Impairment – loan write-offs continued

(i) Retail bank

The group considers the point at which there is no reasonable expectation of further recovery to be when the loan has a present value of future recovery less than 5% of the gross balance before write-off. This is currently estimated based on account status, behavioural score and consecutive missed payments.

This point is currently estimated as:
- loans terminated from debt review:
  - 4 consecutive missed payments (after allowing 3 months for administration)
- loans that have been handed over/other legal status:
  - handover score less than the predetermined threshold
  - handover score more than the predetermined threshold with 4 consecutive missed payments (after allowing 3 months for administration).

Where actual cash inflows exceed the amount written off, the excess is disclosed as bad debts recovered.

(ii) Business bank

Loans and debt securities are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or in part). This is the case when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

A judgemental approach to write-off is followed, based on a case-by-case assessment by a credit committee. Each credit portfolio has a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.

The Business bank may apply enforcement activities to financial assets written off. Recoveries resulting from the group's enforcement activities are disclosed as bad debts recovered.

2.5.1.2.4 Modifications and derecognition

Financial instruments are derecognised when:
- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example, an outright sale or settlement
- they are transferred and the derecognition criteria of IFRS 9 are met
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

If the contractual cash flows of a financial asset measured at amortised cost are modified (renegotiated or rescheduled), the group considers whether this is a substantial modification to the original terms, or if the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification. If changes are made as part of such distressed modification, the group does not derecognise the original financial asset.

The group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the loan's original effective interest rate. The difference between the recalculated gross carrying amount and the gross carrying amount before the modification is recognised as a modification gain or loss.

If the changes are considered to be a substantial modification, the group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates the effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

Loan consolidations are treated as a derecognition of the loans as the contractual cash flows from the financial asset expire.

In instances where the group reschedules a credit agreement, the cash flows are renegotiated with the client, and, in some instances, the internal rate of return is affected by the modification of the agreement.

When a client goes into debt review, cash flows are renegotiated and, in some instances, the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 8.

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances

Up-to-date loans and advances, rehabilitated rescheduled loans	Clients who are fully up-to-date with their original contractual obligations, or clients with amended contractual obligations and who have rehabilitated post rescheduling, are classified as up-to-date. SICR is identified for loans and advances that are up-to-date but have reached certain behaviour risk thresholds, or specific events have occurred that indicate a SICR.
Retail bank loan consolidations	Loan consolidations occur where a client with an existing Retail bank unsecured loan applies for further credit. A consolidation loan is always the result of the full credit assessment process that all clients (both new and existing) go through when applying for new credit. The outcome of the full credit assessment process is either a consolidation loan, a new separate loan or no new loan granted. These loans are not seen as modifications.
Rescheduling (Retail bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement, as formally agreed between the group and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact the bank when wanting to reschedule their loans due to changes in their circumstances. No initiation fee is charged on a rescheduled loan as no new credit is granted. Rescheduled loans do not form part of loan sales.
Rescheduling (Business bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement. This can be done in the normal course of business (defined as a restructure). Rescheduling can also be used as a rehabilitation mechanism for clients who would otherwise not be able to meet their commitments (defined as distressed restructure). A reschedule is classified as stage 1 when there is no indication of SICR, as stage 2 when there is an indication of SICR and as stage 3 where the borrower is in arrears.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances continued

Rehabilitated	Clients with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling and are up-to-date with their amended contractual obligations. This is supported by statistical analysis.
Rescheduled from up-to-date not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were fully up-to-date with their original contractual obligations, have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payments under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from up-to-date are considered to be stage 1 once these loans have rehabilitated, unless their behaviour score indicates a SICR, in which case the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Rescheduled from arrears not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were in arrears and were subsequently rescheduled and have made payments under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from arrears are considered to be stage 1 once these loans have rehabilitated, unless their behaviour scores indicate a SICR, where the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Rescheduled from up-to-date not rehabilitated (Business bank segment)	These are loans and advances relating to clients who were fully up-to-date with their original contractual obligations, have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payments under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from up-to-date are considered to be stage 1 once these loans have rehabilitated, unless there is an indication of SICR, in which case the loan will be in stage 2. The loans are seen as stage 2 until they have rehabilitated.
Rescheduled from arrears not rehabilitated (Business bank segment)	These are loans and advances relating to clients who were in arrears and were subsequently rescheduled and have made payments under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from arrears are considered to be stage 1 once these loans have rehabilitated, unless there is an indication of SICR, in which case the loan will be in stage 2. The loans are seen as stage 2 until they have rehabilitated.
Application for debt review	Clients that apply for debt review are identified as credit-impaired, and the related loans are classified as stage 3 for the first 6 months following application. Clients who applied for debt review more than 6 months ago who are up-to-date are identified as SICR and the related loan is classified as stage 2 between 6 and 12 months following application. If clients applied for debt review more than 12 months ago and remained up-to-date, the related loan is classified as stage 1 subject to the SICR assessment.
COVID-19 rescheduled loans	Reschedules that were undertaken based on COVID-19-related factors. These loans comprise payment breaks and variable reschedules between 26 March 2020 and 19 July 2020.
Arrears	Arrears comprise the outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid past the contractual payment date. The arrears balance therefore includes rescheduled loans when the amended instalment was not paid in full.
Forward-looking macroeconomic assumptions	IFRS 9 requires that forward-looking macroeconomic assumptions be applied to both 12-month and lifetime ECL calculations.

2.5.2 Financial liabilities

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at FVTPL, are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred and subsequently stated at amortised cost using the effective interest rate method.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the agreement relating to the financial liability is discharged, cancelled or has expired.

2.5.2.1 Hedging activities

The group designates certain derivatives as:

(i) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

(ii) economic hedges if not qualifying in terms of the accounting criteria to be classified as FVTPL.

The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions. Currently, derivatives are limited to interest rate swaps and forward foreign exchange contracts.

2.5.2.2 Treatment of hedges qualifying as cash flow hedges

The group applies IAS 39 to hedge accounting with the disclosures required by IFRS 7.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised in the income statement immediately.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable-rate borrowings is recognised in the income statement within interest expense. Refer to note 42 for separate disclosure.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.5 Financial instruments continued

2.5.2 Financial liabilities continued

2.5.2.2 Treatment of hedges qualifying as cash flow hedges continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within movement in financial instruments held at FVTPL, disclosed under operating expenses.

At the inception of the transaction, the group designates the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in note 23.

2.5.2.3 Treatment of economic hedges classified as FVTPL

Where applicable, changes in the fair value of derivatives classified as FVTPL are taken to profit or loss immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in notes 42 and 33.7.

2.5.2.4 Treatment of the SME Loan Guarantee Scheme

In terms of an arrangement facilitated by the Banking Association South Africa, between the SARB and participating banks in South Africa, the SARB committed to provide dedicated funding at the repo rate to the banks who elected to participate in the SME Loan Guarantee Scheme (the scheme). The group is a participant in the scheme.

In terms of the scheme, the group will utilise the dedicated funding obtained from the SARB to lend to qualifying small- and medium-sized enterprise (SME) clients at the prime interest rate (ring-fenced portfolio). The loans are repayable over 5 years. Banks are not permitted to profit from these loans and any surpluses generated will accrue to National Treasury. As part of the scheme, commercial banks are sharing in 6% of the risk of non-repayment if the advances in the portfolio were to default.

The loans granted under the scheme are recognised in loans and advances (note 8). The limited guarantee arrangement entered into with the SARB is viewed as a credit enhancement integral to the loans advanced, and the cost of the limited guarantee is adjusted to the effective interest rate of the loans advanced under the scheme.

2.6 Intercompany loans

All loans to group companies bear interest as agreed by the parties from time to time and have no fixed repayment terms, unless otherwise stated, in which case they are viewed to be repayable on demand.

2.7 Current tax

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The group recognises liabilities for uncertain tax positions in accordance with the criteria defined within IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*, based on objective estimates of the amount of tax that may be due, which is calculated where relevant, with reference to expert advice received. Where payment is determined to be possible but not probable, the tax exposure is disclosed as a contingent liability. The group recognises probable liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax in the period in which such determination is made.

2.8 Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax laws and rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, ECLs, revaluation of certain financial assets and liabilities, prepaid expenses and tax losses carried forward. Deferred tax assets are raised only to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2.9 Property and equipment

Land and buildings comprise owner-occupied properties and completed buildings. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, which currently are as follows:

• Automated teller machines (ATMs)	10 years
• Banking application hardware	3 – 5 years
• Buildings	50 years
• Computer equipment	3 – 7 years
• Motor vehicles	5 years
• Office equipment	5 – 10 years
• Leasehold improvements	5 – 10 years

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.9 Property and equipment continued

The assets' residual values and useful lives are annually reviewed and adjusted, if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. Assets destroyed in insured events are derecognised when it is not probable that future economic benefits from the destroyed asset will flow to the group. Compensation from insurance companies is included in the income statement when it becomes receivable.

2.10 Intangible assets

2.10.1 Computer software

Computer software licences are acquired and are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with developing and maintaining computer software programs are recognised as an expense when incurred with the exception of development costs that meet the criteria for internally generated intangible assets.

Amortisation is calculated using the straight-line method to allocate costs to the residual values over the estimated useful lives, which currently are as follows:

- Banking application software 6 years
- Desktop application software 2 – 4 years
- Server software 3 – 5 years

The group recognises monthly subscription fees for the use of software that is stored in the cloud (software as a service) as an expense if the software:

- is not specifically customised for the group's purpose
- is an off-the-shelf software package that is available on a subscription basis, or for purchase by any other user, and
- at the end of the agreement period, the right to access and use the service terminates.

As the supplier or its licensors retain all ownership and intellectual property rights to the services, including the programs and ancillary software, as well as anything developed or delivered in terms of the agreement, the group does not consider having a right to access the supplier's application software as sufficient to indicate that at the agreement inception the group controls a resource that meets the definition of an intangible asset.

The group recognises the monthly subscription fee paid upfront as a prepaid asset until the point that the group has received the related services.

2.10.2 Internally generated intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognised as an expense when incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation is calculated using the straight-line method to allocate costs to the residual values over the estimated useful lives, which are currently as follows:

- Internally generated intangible assets 3 – 10 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

2.10.3 Core deposit intangible

The core deposit intangible asset represents the benefit of having acquired a readily available source of lower-cost funding rather than having to source funding from the open market. The lower-cost funds provide a substantial economic benefit that is recognised as an intangible asset.

Core deposits are valued using the income approach (cost savings method), where savings in funding costs are considered as notional income and are capitalised over the useful life of deposits.

Amortisation of the core deposit intangible is calculated using the straight-line method to allocate its cost over its estimated useful life, which is currently 7 years.

2.10.4 Client relationships

The client relationship intangible asset is measured as the benefits of future business with a client beyond the amount secured by any current contractual arrangements.

Client relationships are valued using the multi-period excess earnings method.

Amortisation of client relationships is calculated using the straight-line method to allocate costs over the estimated useful life, which is currently 7 years.

2.10.5 Goodwill

Goodwill is measured as the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition.

Goodwill arising on the acquisition of subsidiaries is reported in the statement of financial position as part of 'intangible assets including goodwill'. Goodwill arising on the acquisition of associates and joint ventures is reported in the statement of financial position as part of 'interest in associates and joint ventures'.

Goodwill is tested annually for impairment unless there is an impairment indicator, in which case the test is performed more than once a year. Should an impairment of goodwill be required, it will be recognised in profit or loss. Where goodwill is separately identified and reported, the impairment may not be reversed.

2.11 Right-of-use assets

At inception of an agreement, the group assesses whether an agreement is, or contains, a lease. If the agreement conveys the right to control the use of an identified asset for a period of time in exchange for consideration it is, or contains, a lease. An agreement conveys the right to control the use of an identified asset if:

- the agreement involves the use of an identified asset – this may be specified explicitly or implicitly, and should be a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified
- the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use

Notes to the financial statements continued
Year ended 28 February 2023

2. Accounting policies continued

2.11 Right-of-use assets continued

- the group has the right to direct the use of the asset. The group has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either: (i) the group has the right to operate the asset; or (ii) the group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception, or on reassessment of an agreement that contains a lease component, the group allocates the consideration in the agreement to each lease component on the basis of its relative stand-alone price.

Where the group is the lessee

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (which is equal to the lease liability adjusted for upfront deposits) and increased with initial direct costs incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

The group applies the cost model subsequent to the initial measurement of the right-of-use asset.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The group enters into leases for branches, off-site ATM locations, office space and storage facilities.

Where the group is the lessor

Subletting is incidental to the group's occupation of certain properties. Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term.

Leases consisting of rental finance and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable less unearned finance charges, being included in loans and advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Rental finance agreements are typically granted to Business bank clients to lease security equipment, copiers and telecommunication equipment. Instalment sale agreements finance motor vehicles and equipment for Business bank clients.

The ECL is measured as either a 12-month or lifetime ECL depending on whether a SICR has occurred since initial recognition or an asset is considered to be credit-impaired. Measurement considers forward-looking information. ECL is the discounted result of PD, EAD and LGD without factoring in any collateral or residual values in the LGD.

Rights are accorded to suppliers and business partners to buy back the assets on termination of the lease agreement once the last rental has been paid. These are normally nominal values as invariably the life of the asset equates to the period of the lease or close thereto. Evergreen arrangements can be made where the client continues to utilise the asset after the term of the agreement is concluded and continues to pay rental. This could run for as long as 24 months but often, after 1 year, the agreement is cancelled and the ownership of the asset passes to the client for 3 months' rental. If the rental agreement does not proceed to term due to arrears rentals on the account, the asset is repossessed and disposed of at market-related prices. In many instances, the supplier may make an offer on the asset, refurbish it and put it back into the market or, if not, possibly buy it for spares. A condition embedded within the rental agreement is that the client is accountable for insuring the asset over the term of the rental agreement should the asset be lost, stolen or destroyed.

2.12 Lease liability

A lease liability is initially measured at the present value of the remaining lease payments on the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be determined, the lessee uses the lessee's incremental borrowing rate.

The incremental borrowing rate on a portfolio is used as a specific rate for a single lease asset does not materially differ from the rate obtained on a portfolio basis. The rate is based on the 3-monthly swap curve and the basis for this curve is the 3-monthly Johannesburg Interbank Agreed Rate (JIBAR). The term structures of base rates and spreads are solved to a single rate for each lease maturity, to take into account the fixed-rate nature of the incremental borrowing rates in IFRS 16. Inputs considered include: the inclusion of a Capitec-specific margin, aligning the maturities of our bonds in issue to the cash flows of the lease portfolio, adjusting the curve to reflect a secured lending rate and updating the convention of the curve to a monthly convention.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments; variable lease payments that depend on an index or a rate; amounts payable under a residual value guarantee; and the exercise price under a purchase option that the group is certain to exercise.

Rental agreements are typically for fixed periods of 5 years but may include extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases – extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of branches, the following factors are the most relevant:

- Where there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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

Short-term and low-value leases

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term shorter than 12 months and leases of low-value assets.

Low-value assets comprise information technology (IT) equipment.

The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.13 Impairment of non-financial assets

Equipment and other non-financial assets (for example, property and computer software) are assessed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell, and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Share capital

2.14.1 Categories of share capital

Authorised share capital consists of:

- ordinary shares
- non-redeemable, non-cumulative and non-participating preference shares
- convertible or written off, loss-absorbent preference shares.

2.14.2 Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14.3 Dividends declared

Dividends on ordinary shares and preference shares that are classified as equity are recognised in equity in the period in which they are approved by the group's directors. Dividends for the year that are declared after the statement of financial position date are dealt with in the directors' report.

2.14.4 Treasury shares

Where the company or other group entities purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

2.14.5 Preference shares

As the preference shares are non-redeemable, non-cumulative and non-participating, they are included in equity.

2.15 Employee benefits

2.15.1 Pension obligations

The group contributes to provident and retirement funds classified as a defined contribution fund.

The group pays fixed contributions to privately administered provident or retirement fund plans on a contractual basis. The group has no further payment obligations.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.15.2 Share-based compensation

The group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates if any, in the income statement, and a corresponding adjustment to retained income in the statement of changes in equity over the remaining vesting period.

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the cost of funding as well as an assumption on the actual percentage of shares that will be delivered.

The group also has cash-settled, share-based compensation plans. The fair value of the liability incurred for employee services received is recognised as an expense over the vesting period. Until the liability is settled, the group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

2.15.3 Performance incentive scheme

The group operates a performance incentive scheme for senior and other employees who are seen to be in leadership roles critical to the current and future success of the group's business.

The amount recognised as a liability is the present value of the obligation at the end of the reporting period.

The rate used to discount the obligation is determined by reference to market yields on government bonds at the end of the reporting period. The currency and term of the bonds are consistent with the currency and term of the obligation.

The employee service cost is recognised in the income statement as the obligation arises.

2.15.4 Post-retirement medical benefits

The group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Mercantile Bank Limited (Mercantile) medical aid scheme prior to May 2000, who elected to retain benefits in 2005, and are based on these employees remaining in service up to retirement age.

The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the current service costs of providing post-retirement medical benefits are recognised in profit or loss.

The effect of settlements on the liability is recognised in profit or loss and any remeasurement of the defined benefit liability (which includes actuarial gains and losses) is recognised in other comprehensive income.

The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

2.15.5 Izindaba Ezinhle Employee Share Scheme

The Izindaba Ezinhle Employee Share Scheme is accounted for in terms of IFRS 2 *Share-based Payment*. The scheme involves the issuing of shares to participating employees.

The scheme was accounted for in terms of IFRS 2 *Share-based Payment* as a cash-settled share-based payment transaction by Capitec Bank Limited in so far as Capitec Bank Limited had an obligation to pay 50% of the subscription price, on behalf of the employees, to Capitec Bank Holdings Limited, with the remaining balance being funded through loans provided to the participating employees.

The part of the scheme funded by the loans was accounted for as equity-settled in both the Capitec Bank Limited and Capitec Bank Holdings Limited separate financial statements. The cash received by Capitec Bank Holdings Limited as part of the cash-settled share-based payment transaction is separately accounted for in the equity in Capitec Bank Holdings Limited's separate financial statements. The whole scheme is accounted for as equity-settled for the group as the shares of Capitec Bank Holdings Limited were issued to employees of the group. The Izindaba Ezinhle Employee Share Scheme entry in equity in the separate financial statements is eliminated on consolidation to recognise a share option reserve.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.15 Employee benefits continued

2.15.5 Izindaba Ezinhle Employee Share Scheme continued

The fair value of the equity instruments granted was measured using a Monte Carlo simulation, an option pricing model which takes into account the market price on grant date, the cost of funding as well as an assumption on the actual shares that will be delivered on repayment of the loan after 5 years. The fair value on the grant date is recognised in the income statement, with a corresponding increase in equity (share option reserve) in terms of IFRS 2 in the consolidated financial statements. As there are no service or performance conditions attached to the scheme, the expense is recognised on the grant date. A 5-year trade restriction is imposed in respect of the issued shares.

2.15.6 Co-investment plan share option scheme

Capitec Bank Holdings Limited granted share options directly to the employees of Capitec Bank and Capitec Life as consideration for services rendered as part of a bonus arrangement and in an effort to retain the services of specific employees. The strike price of the share options reduces by 5% per annum over the vesting period.

The fair value of the share options granted is measured on the grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption regarding the actual percentage of shares that will be delivered. The fair value on the grant date will be recognised in the income statement on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity. The share-based payment expense was calculated using the Monte Carlo option pricing model, which is reflective of the underlying characteristics of the co-investment plan share option scheme.

2.15.7 Restricted share plan (RSP)

Senior and other employees who are seen to be in leadership roles critical to the current and future success of the group's business are awarded the opportunity to participate in Capitec Bank's RSP during October of each financial year. The members' bonuses, as calculated in terms of the RSP, are split into 3 tranches, the first of which is paid in cash on the bonus payment date for the relevant financial year. Participants are given the opportunity to choose whether the remaining two-thirds of their bonus should be settled in cash or Capitec Bank Holdings Limited ordinary shares.

The third of the bonus that is settled in cash is accounted for as a short-term employee benefit in terms of IAS 19 *Employee Benefits*. The two-thirds of the bonus for which participants have the right to choose whether the bonus should be settled in cash or equity instruments is accounted for in terms of IFRS 2 *Share-based Payment*.

In terms of the principles of IFRS 2, the group has granted the participants the right to choose whether the share-based payment transaction should be settled in cash or by receipt of equity instruments, therefore the group has granted a compound financial instrument, which includes a debt component (the right to payment in cash) and an equity component (the right to settlement in equity instruments rather than in cash). The fair value of the compound financial instrument is the sum of the fair values of the 2 components.

2.16 Foreign currency translation

2.16.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the group's presentation currency. The financial statements of all the subsidiaries are also presented in South African rand, which is their functional and presentation currency. The investment in associate is translated to South African rand at the exchange rate prevailing at the reporting date. The equity accounted earnings are translated to South African rand at the average exchange rate for the period. Gains or losses on translation are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve.

2.16.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into rand at the exchange rate prevailing at the reporting date. Exchange gains and losses on such balances are taken to profit or loss.

Exchange gains and losses on translation of a foreign operation are taken to other comprehensive income.

2.17 Net insurance receivable

Insurance agreements are defined as those contracts or agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the issuer of the insurance agreement to pay significant additional benefits as envisaged at the inception of the agreement. Such agreements remain designated as insurance agreements until all rights and obligations are extinguished or expire.

The group has provided capital to the third-party cell captive which allows the group to benefit from the ring-fenced insurance business. From the group's perspective, the cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell captive.

The licensed cell captive insurer's accounting policy is applied to the third-party cell captive. Since the inception of the arrangement, the cell captive insurer has utilised the Standard of Actuarial Practice (SAP) 104 and the Advisory Practice Notes issued by the Actuarial Society of South Africa to determine the policyholder liabilities of the cell captive. Policyholder liabilities are measured either on a discounted or undiscounted basis, depending on the features of the agreements.

The group's insurance liabilities comprise outstanding claims and a provision for claims incurred but not yet reported (IBNR). The IBNR provision is measured at the best estimate of ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not.

The cell captive arrangement exposes the group to insurance risk. The group's insurance risk relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

With respect to the retained insurance risk, judgement is required in determining the actuarial movements of the insurance agreement liabilities held by the cell captive. There is uncertainty with regard to the claims that will be made by clients, which is dependent on a number of unpredictable factors. The cell captive insurer makes this judgement based on the best estimate and in accordance with SAP 104 principles.

The insurance risk associated with the investment in the cell captive arrangement is disclosed in the statement of financial position as 'net insurance receivable'.

2.18 Revenue recognition

2.18.1 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income and expense are recognised separately from other fair value movements.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.18 Revenue recognition continued

2.18.1 Interest income and expense continued

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The original effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the original effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the agreement that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, which is the effective interest rate calculated at origination of the financial asset measured at amortised cost.

Loan origination fees that relate to the creation of a financial asset are amortised over the expected term of the loan on an effective interest rate basis and included in interest income.

2.18.2 Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided.

Loan fee expenses comprise credit insurance premiums paid and are recognised when the services are received from the first-party credit life insurance cell captive.

2.18.3 Transaction and commission income and expenses

Transaction income and expenses are recognised when the performance obligations are met at a point in time. Card commission income and expenses and point-of-sale (POS) transactions are from the group's ATM and card machine networks. Branch, cash and self-service transaction income, digital transaction income and related expenses arise due to the group's branch network and various electronic banking channels that the group has, namely the banking app, USSD and internet banking platform. Transaction income also includes monthly fees and fees on debit orders and other transactions.

Transaction fee income and commission income are based on a single performance obligation per transaction and therefore no significant judgements are made when allocating the transaction price to performance obligations.

Transaction fee and commission expenses are incremental and directly attributable to the generation of transaction fee and commission income.

Commission income

The group is entitled to commission income for providing the service of arranging for other parties to transfer services to its clients. The group is an agent as its performance obligation is to arrange for the provision of the specified service by another party. The group does not control the specified service provided by another party before that service is transferred to the client. When (or as) the group as an agent satisfies a performance obligation, revenue is recognised in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified services to be provided by the other party. The group's commission might be the net amount of consideration that is retained after paying the other party the consideration received in exchange for the services to be provided by that party. The revenue is recognised at a point in time and includes commission income from the sale of prepaid mobile network services, electricity, national lottery tickets, vouchers and enabling clients to pay bills on the banking application.

Commission expenses

Commission expenses are incremental and directly attributable to the generation of commission income. Commission expenses include service fees which are recognised as an expense when the services are received.

Live Better rewards programme

Bank Better rewards

The cash back payable to clients as Bank Better rewards on the 10th of every month represents a contractual obligation to deliver cash to clients and is therefore defined as a financial liability in terms of IAS 32 *Financial Instruments: Presentation*, with the contra entry for the financial liability being a transaction fee expense in the income statement which is recognised when the cash back is granted to clients.

The financial liability is subsequently measured at amortised cost in terms of IFRS 9 *Financial Instruments*, but as the cash back already represents the future value as it is immediately due, no adjustments in terms of the effective interest method are deemed necessary. Paragraph 47 of IFRS 13 *Fair Value Measurement* states that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Spend Better partners

The agreement that the group has with the benefits partners for the partner-funded cash back stipulates that the benefits partners will reimburse the group for the funded payment of the cash back into clients' Live Better accounts. Therefore, the cash back payable to clients by the benefits partners represents a contractual right for the group to receive cash from the benefits partners as a reimbursement and is therefore defined as a financial asset in terms of IAS 32 *Financial Instruments*: *Presentation*. The contractual obligation of the group to deliver cash to clients' Live Better savings accounts is defined as a financial liability in terms of IAS 32 *Financial Instruments*: *Presentation* as mentioned above.

Save Better tools

Round-up

The Round-up amounts from qualifying transactions are transferred to clients' Live Better savings accounts when each transaction clears.

Interest Sweep

The monthly interest clients earn on their main transactional savings account balance is transferred to their Live Better savings account at the end of each month.

The Round-up and Interest Sweep amounts from qualifying transactions that are transferred to clients' Live Better savings accounts when each transaction clears merely represent transfers between clients' main transactional accounts into their Live Better savings accounts. Transactional account balances and Live Better savings account balances of clients are accounted for as deposits (financial liabilities) in terms of IAS 32 *Financial Instruments*: *Presentation* in the statement of financial position.

2.18.4 Capitec Connect

Capitec is a mobile virtual network operator using the mobile network infrastructure of Cell C. The Capitec Connect client offering enables clients to subscribe for mobile network services, namely prepaid airtime, minutes, data and SMSes on the Capitec banking application. In terms of the client offering, clients with a Capitec GlobalOne transaction account are able to become a Capitec Connect subscriber by connecting to the mobile virtual network through purchasing a SIM card from Capitec that has been provisioned and activated on the mobile network.

Capitec is acting as the principal as Capitec is primarily responsible for fulfilling the promise to provide the mobile network services. There is no contractual relationship between Cell C as the mobile network operator and the subscribers, therefore Cell C is providing the mobile network services on Capitec's behalf. Capitec has discretion in establishing the price for the SIM cards and mobile network services.

Notes to the financial statements continued
Year ended 28 February 2023

2. Accounting policies continued

2.18 Revenue recognition continued

2.18.4 Capitec Connect continued

When (or as) Capitec as a principal satisfies a performance obligation, the revenue is recognised in the gross amount of consideration to which it expects to be entitled in exchange for the SIM cards and mobile network services.

SIM cards

A SIM card fee, determined by Capitec, is deducted from the client's main transactional savings account when the client becomes a Capitec Connect subscriber. The SIM cards are distinct goods and represent a single performance obligation in terms of IFRS 15 *Revenue from Contracts with Customers*.

The group satisfies the performance obligation at a point in time and recognises revenue when it satisfies the performance obligation by transferring the promised SIM card to a subscriber.

The cost of SIM cards is recognised in the statement of financial position until the cards are issued to clients. The costs of the purchase of SIM cards comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the group from the South African Revenue Service), and transport, handling and other costs directly attributable to the acquisition of the SIM cards, materials and services. Trade discounts, rebates and other similar items will be deducted in determining the costs of purchase.

Initial fees payable to Cell C per subscriber are recognised as an expense as incurred as the fee is not explicitly chargeable to the subscriber.

When the SIM cards are sold, the cost of those SIM cards is recognised as an expense in the period in which the related revenue is recognised.

Mobile network services

The Capitec Connect mobile network services (prepaid airtime, minutes, data and SMSes) are considered separate performance obligations.

Management considers the terms of the agreement and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which Capitec expects to be entitled in exchange for transferring the mobile network services to a subscriber, excluding amounts collected on behalf of third parties (for example, value added tax (VAT)).

A contract liability is recognised as the group's obligation to transfer the network services to a subscriber for which the group has received consideration (or an amount of consideration is due) from the client. The contract liability is recognised as a trade payable and presented as part of other liabilities.

The group transfers control of the mobile network services over time and therefore satisfies a performance obligation and recognises revenue over time, as clients simultaneously receive and consume the benefits provided by the group's performance as the group performs.

The group therefore recognises revenue from the services as they are provided. Revenue is recognised based on actual units of mobile network services provided during the reporting period as a proportion of the total units of network services to be provided and is accounted for in other income in profit or loss.

Usage fees are payable by Capitec to Cell C for the usage and/or consumption of the bearers on the Cell C network by Capitec's clients. Usage fees are recognised as a financial liability in terms of IAS 32 *Financial Instruments: Presentation* as subscribers use and/or consume the bearers on the Cell C network with the contra entry being an expense.

Monthly general and administrative costs payable to Cell C for subscribers are recognised as expenses when incurred in terms of paragraph 98 of IFRS 15 *Revenue from Contracts with Customers*. Management cannot distinguish whether the administration fees relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations) and will therefore recognise these fees as an expense when incurred.

2.18.5 Dividend income

Dividend income is recognised in the income statement when the entity's right to receive payment is established. Dividends on listed preference shares accrue on a day-to-day basis based on the terms of the underlying instruments.

Dividend income is recognised separately from other fair value movements.

2.18.6 Net insurance income

Net insurance income represents the movement in the net insurance receivable before distributions are paid to the group and comprises profits from the third-party cell captive after reinsurance and tax. Investment returns have been included in interest income.

2.18.7 Funeral plan income

Funeral plan income comprises dividends and commission from a cell captive profit-sharing arrangement after reinsurance.

Capitec entered into a cell captive agreement that is 100% reinsured by a third party. The group is the owner of a cell captive, through a preference share investment, that holds the funeral plan insurance underwritten by the cell captive insurer. This preference share investment is classified as a receivable measured at FVTPL. Due to the reinsurance risk being transferred to the third party, Capitec does not have an obligation to recapitalise the cell should any losses be suffered on in-force policies.

Funeral plan income is received from the cell captive after tax and has been included in funeral plan income in profit or loss.

2.18.8 Foreign currency income

Foreign currency income arises from exchange gains and losses, or remeasurement to fair value at each reporting date, of foreign exchange contracts and foreign currency swaps.

2.18.9 Foreign currency expense

Foreign currency expense comprises commission paid to intermediaries on foreign currency exchange gains.

2.18.10 Interest on investments at FVTPL

Interest income on investments at FVTPL is reflected in 'Interest income on financial assets at FVTPL' in profit or loss. The income is determined based on the movement in the fair value of the investment for the accounting period.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The group executive management committee (EXCO), headed by the CEO, has been identified by the group as the CODM, which is responsible for assessing the performance and allocation of resources of the group.

Notes to the financial statements continued
Year ended 28 February 2023

2. Accounting policies continued

2.20 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial year

Title	Effective date	Impact
Annual improvements cycle 2018 – 2020	Annual periods beginning on or after 1 January 2022 (published May 2020)	IFRS 9 *Financial Instruments* has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of the '10% test' for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. IFRS 16 *Leases:* Amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. No material impact on the financial statements was identified resulting from the adoption of this amendment made to IFRS.
Amendment to IAS 1 *Presentation of Financial Statements* on classification of liabilities as current or non-current	Annual periods beginning on or after 1 January 2022 (published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). No material impact on the financial statements was identified resulting from the adoption of this amendment made to IFRS.
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on onerous contracts – cost of fulfilling a contract	Annual periods beginning on or after 1 January 2022 (published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. No material impact on the financial statements was identified resulting from the adoption of this amendment made to IFRS.
Amendments to IAS 16 *Property, Plant and Equipment* on proceeds before intended use	Annual periods beginning on or after 1 January 2022 (published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss. No material impact on the financial statements was identified resulting from the adoption of this amendment made to IFRS.
Amendment to IFRS 3 *Business Combinations*	Annual periods beginning on or after 1 January 2022 (published May 2022)	The IASB has updated IFRS 3 to refer to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or a liability in a business combination. In addition, the IASB added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* rather than the 2018 Conceptual Framework. The IASB has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. No material impact on the financial statements was identified resulting from the adoption of this amendment made to IFRS.

These amendments had no impact on the measurement of assets and liabilities at the previous year-end. Comparatives are provided for new disclosures where required by the standards.

2.21 Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2023, or later periods, but which the group has not early adopted.

Title	Effective date	Impact
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – sale or contribution of assets between an investor and its associates or joint ventures	The effective date for these amendments was deferred indefinitely	The IASB has made limited scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 *Business Combinations*). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. The impact on the group would be minimal.
IFRS 17 *Insurance Contracts*	Annual periods beginning on or after 1 January 2023. Early application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 17 (published May 2017 with amendments in June 2020 and December 2021)	This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. An overview of the group's implementation of IFRS 17 is provided below.
Narrow scope amendments to IAS 1 *Presentation of Financial Statements*, Practice statement 2: Making materiality judgements and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Annual periods beginning on or after 1 January 2023 (published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The group has not yet assessed the impact of the amendments.
Amendments to IAS 12 *Deferred Tax* – deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 January 2023 (published May 2021)	These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The group has not yet assessed the impact of the amendments.

Notes to the financial statements continued

Year ended 28 February 2023

2. Accounting policies continued

2.21 Standards, interpretations and amendments to published standards that are not yet effective continued

Title	Effective date	Impact
Amendments to IFRS 16 *Leases* – leases on sale and leaseback	Annual periods beginning on or after 1 January 2024 (published September 2022)	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The group has not yet assessed the impact of the amendments.
Amendments to IAS 1 *Presentation of Financial Statements* – non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024 (published November 2022)	These amendments clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The group has not yet assessed the impact of the amendments.

The group's implementation of IFRS 17 *Insurance Contracts*

Background

The IASB issued IFRS 17 *Insurance Contracts* to replace IFRS 4 *Insurance Contracts*, an interim standard that permitted entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements such as generally accepted accounting principles and variations of those requirements, subject to limited improvements and specified disclosures.

The group offers the Capitec funeral plan and credit life insurance to clients through contractual cell captive arrangements with registered insurance companies (cell captive insurer) that transfer certain risks and rewards associated with the insurance activities to the group.

In terms of IFRS 17, the cell captive arrangements are considered to have transferred significant insurance risk to the group due to the contractual requirement imposed on the group to maintain the capital requirements of the cells. The cell captive arrangements thereby create an in-substance insurance contract relationship between the group and the cell insurers, with the group acting as a reinsurer to the cell captive arrangements. The group will therefore apply IFRS 17 to the cell captive arrangements for the annual reporting period beginning on 1 March 2023. Any adjustments to the carrying amounts of insurance contracts will be recognised as an adjustment to the retained earnings on 1 March 2022, and the group will restate 2023 comparatives when reporting on 2024 financial periods.

Status

The implementation of IFRS 17 is governed by the group's audit committee and a steering committee chaired by the group's CFO. The group has made satisfactory progress on the activities required for the adoption of IFRS 17. Group policy and methodology decisions, key judgements and significant estimations and assumptions relating to products have mostly been finalised. Significant progress has been made in the development of best estimate, risk adjustment and contractual service margin measurement and reporting models. These models are undergoing final review and testing and will be put into production thereafter.

The following activities will be completed in the next financial year:

- Transition values
- Comparative results and disclosures
- Ongoing combined assurance reviews, including external audit.

Classification and measurement of insurance contracts

All insurance contracts in the group are classified as insurance contracts without direct participation features and the General Measurement Model (GMM) will be applied. At initial recognition, entities measure insurance contracts at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin under the GMM. The fulfilment cash flows are remeasured on a current basis in each reporting period. The unearned profit (contractual service margin) is recognised as insurance revenue over the coverage period. Insurance service expenses are recognised in the income statement based on the services provided during the period.

Transition

In terms of IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors,* IFRS 17 should be applied retrospectively to insurance contracts unless it is 'impracticable' to do so. This retrospective approach is referred to as the full retrospective approach (FRA). Where it is impracticable to apply the FRA, the modified retrospective approach (MRA) or fair value approach permits several simplifications. The group is working closely with the cell captive insurers to finalize its transition results, including an assessment of which approach will be applied. This includes performing the required impracticability assessments. Progress to date indicates that the MRA will be used for most historical cohorts where it is impracticable to use the FRA. The quantum of the transition impact has not been reported at this time as it is subject to due processes and review by the group's control and governance processes as agreed with the cell captive insurers.

Impact of changes in tax legislation in South Africa

The 2022 Taxation Laws Amendment Act was substantively enacted on 22 December 2022 and promulgated during January 2023. Amendments to section 28 of the Income Tax Act, were included to provide appropriate legislation for the implementation of IFRS 17 and to ensure that the legislation is aligned to the terminology and principles of IFRS 17. The phasing-in period for the income tax impact of any transition amount will be 6 years. The impact of adoption of these changes will be accounted for in the 2024 financial statements when IFRS 17 is adopted.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of the group's annual financial statements requires management to make estimates that affect the amounts reported in the annual financial statements and accompanying notes. Management applies their judgement based on historical evidence, current events and actions that may be undertaken in future. Actual results may ultimately differ from estimates.

The measurement of the loss allowance for ECL on loans and advances and impairment of goodwill represent the most material assumptions, estimates and judgements applied in preparing the consolidated annual financial statements. For the separate financial statements, the determination of the impairment of investment in associates is viewed as the most material estimate applied.

3.1 Judgements

3.1.1 Significant increase in credit risk

In terms of IFRS 9, all loans and advances are assessed at each reporting date to determine whether there has been a SICR since initial recognition of the instrument. In cases where a SICR has occurred, an impairment equal to the lifetime ECL is recognised. If, at the reporting date, the credit risk has not increased significantly, the group recognises a 12-month ECL. The group identifies events that create a SICR on clients who are up-to-date on their loans but who have been subject to a SICR.

(i) Retail bank

Refer to note 2.5.1.2.1 for details on the identification of a SICR since initial recognition. These consider shifts in the calculated default risk beyond determined thresholds. The shifts in default risk result from, among other things, deteriorating scores of specific employer groups. The volume of up-to-date accounts that went into arrears based on historical trends (transfer rate) is considered in determining these thresholds. SICR is then adjusted for the forecast impact of the forward-looking macroeconomic model on transfer rate, considering default rates forecast by the forward-looking macroeconomic model.

Notes to the financial statements continued
Year ended 28 February 2023

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.1 Significant increase in credit risk continued

(i) Retail bank continued

The impact of forward-looking information on the PD, as determined by behaviour and granting scores as detailed in note 3.2.1 (estimates), can result in scores moving beyond the predetermined thresholds, resulting in a SICR. Loans that show a SICR as a result of forward-looking information are grouped separately within stage 2 of the analysis of net loans and advances by stage. An ECL of R468 million (2022: R648 million) is held on these loans and advances as detailed in note 8.

Sensitivity analysis

For categories of SICR, other than forward-looking SICR, the sensitivity analysis is as follows:

Impact of SICR on ECL	Positive	Base	Negative
2023			
Shifting of the SICR threshold by 5% (R'm)[1]	2 065	2 219	2 437
Percentage on total SICR ECL (%)	(6.9)	—	9.9
2022			
Shifting of the SICR threshold by 5% (R'm)[1]	1 634	1 771	1 921
Percentage on total SICR ECL (%)	(7.8)	—	8.5

(1) *Reflects the stage 2 ECL reported in note 8 as 'up-to-date loans with SICR and applied for debt review >6 months' if the deterioration or improvement in the factor used as a behavioural or granting score threshold is stressed by 5%.*

The sensitivity analysis of 'forward-looking SICR' reported in note 8 is included in note 3.2.1.

(ii) Business bank

Refer to note 2.5.1.2.1 for detail on the identification of events that create a SICR.

Sensitivity analysis

The ECL would increase by R43 million (2022: R49 million) if a lifetime ECL was applied to 5% of the current stage 1 portfolio. If we applied a lifetime provision to accounts that are between 1 and 30 days in arrears at the reporting date, the ECL would increase by R1 million (2022: R5 million).

3.1.2 Loan write-offs

Loans are written off when there is no reasonable expectation of further recovery. Refer to note 2.5.1.2.3.

3.1.3 Intangible assets: Goodwill impairment determination

Goodwill is tested annually for impairment unless there is an indicator of impairment, in which case the test is performed more than once a year. Mercantile was acquired in the 2020 financial year as a business bank and its operations and goodwill are monitored by Capitec management as a separate CGU from Capitec's retail operations.

The goodwill allocated to the Business bank CGU as at 28 February 2023 is R849 million (2022: R849 million). As at 28 February 2023, management reviewed the assumptions and estimates used in the impairment calculation and determined that the recoverable amount exceeds the carrying amount.

The fair value less cost to sell is calculated using a free cash flow to equity model taking into account cash flows for the 10-year forecast period. A forecast period of greater than 5 years has been used in order to take into account the level of development expected from leveraging the Capitec Bank brand and the business banking process as well as the board's estimation of the impact of the macroeconomic conditions for all periods to which the budgetary process was applied. A terminal value is determined using the Gordon Growth Model calculation.

The calculation used cash flow projections based on financial budgets approved by management and other management assumptions as per the following table. These projections consider actual growth over the past year in transactional volumes and in clients for certain business lines. The risks associated with the impact of the ongoing global geopolitical tension and current macroeconomic conditions were taken into account by stressing the variables as per the table. The various growth rates applied to the variables are consistent with forecasts included in industry reports specific to the industry in which the CGU operates, historical performance, management's expectation of market developments and management's forecast of new client revenues, which management believe will result from leveraging the Capitec Bank brand and the business banking process. The terminal growth rate does not exceed the historical long-term average growth rate for the country.

Stressing any one of the key assumptions as per the following table will not result in an impairment as the recoverable amount is sufficiently in excess of the carrying amount.

The table below sets out the key assumptions and the related stress.

Key assumptions[1]	Value	Stressed value
2023		
Compound growth rate – credit business (%)	14.2	11.8
Compound growth rate – other business (%)	15.7	12.9
Terminal growth rate (%)	4.5	3.5
Capital asset pricing model (CAPM) discount rate (%)	15.4	16.3
2022		
Compound growth rate – credit business (%)	16.6	13.9
Compound growth rate – other business (%)	17.7	13.7
Terminal growth rate (%)	4.5	3.5
CAPM discount rate (%)	14.2	15.0

(1) *In the fair value hierarchy, these unobservable inputs would be described as level 3.*

The future cash flows, which reflects specific risks relating to the CGU, were discounted using the expected rate of return while maximising the use of market observable data. The expected rate of return was calculated using the CAPM. For purposes of the calculation of the CAPM discount rate, the following assumptions were used:

Key assumptions	Approach to determining value	Value
2023		
Risk-free rate (%)	10-year South African government bond rate	10.7
Equity risk premium (%)	Available studies from Ibbotson, the SBBI® Yearbook, Damordaran studies, equity risk premium implied by stock markets and others	5.4
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	0.87
Cost of equity (%)		15.4
2022		
Risk-free rate (%)	10-year South African government bond rate	9.7
Equity risk premium (%)	Available studies from Ibbotson, the SBBI® Yearbook, Damordaran studies, equity risk premium implied by stock markets and others	5.3
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	0.85
Cost of equity (%)		14.2

A post-tax discount rate was used to discount post-tax cash flows in the determination of the fair value less cost to sell.

Notes to the financial statements continued
Year ended 28 February 2023

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.4 Valuation of investments in associates: Avafin Holdings Limited (Avafin) – previously known as Cream Finance Holdings Limited (Cream Finance)

The group considered the economic environment in which Avafin operates to be an indicator of potential impairment in terms of IAS 36 *Impairment of Assets*. Avafin is an associate, located in Cyprus, with subsidiaries based in a number of European and North American countries.

The group tested the carrying amount of its investment in Avafin by comparing it to the recoverable amount based on the fair value less cost of disposal methodology.

The fair value less cost of disposal is calculated using a dividend discount model taking into account dividend flows for the 10-year forecast period. A terminal value is determined using a Gordon's Growth Model calculation.

Each country within the Avafin group is affected by different factors such as government regulations, markets, economic and legal environments, and each country's future cash flows are determined using the most appropriate method taking into consideration the factors that specifically affect it. The impact of the global geopolitical tension on the financial performance was taken into account by adjusting future cash flows based on actual performance over the recent impacted period.

The future dividend cash flows were discounted using the expected rate of return. The expected rate of return was calculated using the CAPM.

The table below sets out the key assumptions and related stress. The rates consider that this investment is in euro.

Key assumptions[1]	Value	Stressed value
2023		
Net growth rate (%)	**2.9**	**2.7 – 3.1**
Dividend payout rate (%)	**93.3**	**80 – 100**
Beta coefficient (%)	**1.07**	**1.05 – 1.09**
Terminal growth rate (%)	**2.9**	**2.7 – 3.1**
CAPM discount rate (%)	**11.3**	**11.0 – 11.6**
2022		
Net growth rate (%)	2.9	2.7 – 3.1
Dividend payout rate (%)	93.4	80 – 100
Beta coefficient (%)	1.13	1.11 – 1.15
Terminal growth rate (%)	2.9	2.7 – 3.1
CAPM discount rate (%)	8.4	8.2 – 8.6

[1] *In the fair value hierarchy, these unobservable inputs would be described as level 3.*

Based on the assumptions above, the fair value less cost of disposal of the investment is calculated by applying Capitec's shareholding (40.86%) and the exchange rate as at financial year-end.

As at 28 February 2023, the fair value less cost of disposal was determined. An improvement in recent underlying cash flows was not fully incorporated in the forward-looking expectations due to the complex and evolving geopolitical situation in Eastern Europe. Stress of any one of the key assumptions as per the table above will not result in a difference of more than R14 million (2022: R18 million) to the recoverable amount.

For purposes of the calculation of the CAPM discount rate, the following assumptions were used:

Key assumptions	Approach to determining value	Value
2023		
Risk-free rate (%)	The risk-free rate is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	**4.3**
Equity risk premium (%)	The risk premium is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	**6.6**
Beta coefficient	Available studies published by the NYU Stern School of Business for the 3-year average beta for banks in Western Europe and for financial services	**1.07**
Cost of equity (%)		**11.3**

Key assumptions	Approach to determining value	Value
2022		
Risk-free rate (%)	The risk-free rate is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	3.1
Equity risk premium (%)	The risk premium is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	4.8
Beta coefficient	Available studies published by the NYU Stern School of Business for the 3-year average beta for banks in Western Europe and for financial services	1.11
Cost of equity (%)		8.4

A post-tax discount rate was used to discount post-tax cash flows in the determination of fair value less cost of disposal.

3.2 Estimates

3.2.1 Forward-looking information incorporated in the impairment of loans and advances

It is a fundamental principle of IFRS 9 that the group's loss allowance for ECL against potential future losses should take into account changes in the economic environment in the future.

Forward-looking information has been incorporated in measuring the loss allowance for ECL through the application of quantitative modelling and expert judgement-based adjustments.

The methodology for incorporating the forward-looking information has not changed from the year ended 28 February 2022 except for changes to the inputs and the probabilities assigned to the economic scenarios used, as well as increased granularity in the modelling, by separately correlating forward-looking macroeconomic information across 12 segments.

(i) Retail bank

The BER provided management with a set of forward-looking macroeconomic scenarios and associated probabilities covering a planning horizon of 5 years in February 2023. The ALCO reviewed and approved the BER's forward-looking macroeconomic outlook.

The scenarios provided by the BER comprised a baseline scenario, a positive scenario and a negative scenario. In designing the narrative of the scenarios, their severity and the assignment of the probabilities attached to the scenarios, the BER applied expert judgement. The severity of the scenarios impacted the weightings for 2023. The scenarios are linked to PDs to derive a forward-looking ECL.

Notes to the financial statements continued

Year ended 28 February 2023

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates continued

3.2.1 Forward-looking information incorporated in the impairment of loans and advances continued

(i) Retail bank continued

The main considerations of the BER in setting the scenarios are outlined below. These then impact on the forecast macroeconomic variables.

- The economic growth outlook of South Africa's major trading partners and the impact it has on the demand for South Africa's exports of goods and services to these markets.
- Global inflationary pressures, the global interest rate response and the potential duration of the current cycle.
- Looming domestic risks, including increased and prolonged levels of load shedding and the grey listing by the Financial Action Task Force in February 2023.
- Specifically, in the negative scenario, a reduction in the oil demand introduces a lower oil price, among other assumptions.

The probability weightings for the 12-month forecast period for each of the scenarios, as set out in the following table, were accepted by management.

Scenario probability	2023	2022
Baseline (%)	53	50
Negative (%)	24	29
Positive (%)	23	21

The relevance of the outlook to Capitec's loan book is proven by a historical linear relationship to a change in a basket of macroeconomic variables. These variables, which were increased in the current year following the expansion of the segmentation of the forward-looking macroeconomic model, are:

	Bad			Baseline			Good		
Macroeconomic variable	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER
2023									
Petrol[(1)(2)]	–	(0.4)	1.0	–	(0.3)	0.1	–	(1.5)	(0.2)
Unemployment (%)	–	33.0	33.2	–	32.3	30.5	–	31.8	28.1
Unemployment[(1)]	–	(1.7)	0.3	–	(3.6)	(2.4)	–	(5.2)	(4.9)
Real credit extension[(1)]	–	0.6	0.6	–	1.0	1.7	–	1.3	2.7
Gross domestic product (GDP)[(1)]	–	(0.6)	1.4	–	0.5	1.8	–	1.2	2.6
Repo rate	–	7.4	7.5	–	7.4	6.9	–	7.4	6.7
Real wage rate[(1)]	–	1.4	0.8	–	0.1	0.6	–	–	0.6
Real disposable income[(1)]	–	0.9	1.5	–	2.0	1.9	–	2.7	2.7
2022									
Petrol[(1)]	31.2	22.5	3.8	29.0	22.2	3.6	28.4	21.8	3.1
Consumer price index (CPI)[(1)]	5.6	5.4	4.7	5.4	5.2	4.5	5.3	5.2	4.2
Unemployment (%)	–	35.4	36.3	–	35.0	34.8	–	34.9	33.8
Unemployment[(1)]	–	9.8	–	–	8.9	–	–	8.5	–
Real credit extension[(1)]	–	0.3	(1.0)	–	0.5	(0.1)	–	0.6	0.5
GDP[(1)]	–	(2.4)	0.9	–	(1.6)	1.8	–	(1.1)	2.6

(1) *Year-on-year percentage change.*

(2) *The year-on-year percentage decrease of the price of petrol is expected to be higher in the bad scenario as a result of a lower oil price expected by the BER in this scenario in the near term.*

The impact of forward-looking information on the ECL, based on the 3 scenarios, is reflected below.

Impact of forward-looking information on ECL – 2023

The impact of the geopolitical tension that arose during the 2022 financial year continued during the current year. The risk segmentation of the forward-looking macroeconomic model was expanded to use the most appropriate macroeconomic variables. These are correlated to determine the impact of forward-looking macroeconomic information on the ECL for loans grouped into 12 internally developed client behaviour score segments.

The correlation included the selection of the most appropriate macroeconomic variables per segment as well as the related delay ('lags') per segment per economic variable between changes in the economic variables and the forecast changes in defaults.

Macroeconomic variables relating to changes in the petrol price, unemployment, the real wage rate and the absolute repo rate were seen to be more appropriate for clients in higher risk segments.

This ensures that the relationships between the movements in the macroeconomic variables utilised by behaviour score band and default rates hold true under reigning and historical macroeconomic conditions. Based on the refined segmentation, management determined a range of PD values per the 12 particular risk segments that would be impacted by a change in specific macroeconomic variables.

Management was not required to apply stress to any of the macroeconomic variables in the current year as the BER was able to provide an updated economic outlook to management that was applicable as at 28 February 2023.

Impact of forward-looking information on ECL – 2022

The impact of forward-looking information on ECL, which included the impact of forward-looking information on SICR, was determined by applying the macroeconomic variables as set out in the previous table. The impact of continued economic strain on ECL was exacerbated by global geopolitical tension. This was taken into account by applying the more negative BER macroeconomic outlook as of January 2022 and, in addition, stressing the macroeconomic variables for petrol prices and CPI. These were the variables that were directly impacted by the global geopolitical tension. The stresses considered economic data available as at 28 February 2022.

Determining the impact of forward-looking information, relative to the baseline information built into the forward-looking economic model, was challenging due to changes in the relationship of certain economic variables (such as petrol prices and CPI) to default rates over the period of the COVID-19 economic strain. The sensitivity of loans to the macroeconomic scenarios based on the level of income of clients was therefore considered. Different models were used to assess the risk of clients with a lower and higher level of income. Clients with a lower level of income were seen to be more sensitive to stress from factors such as petrol prices and the general level of unemployment in the country. Clients with a higher level of income are less sensitive to stress and would be affected more by increases in the general levels of unemployment and a deterioration in GDP instead of the petrol price.

The impact of forward-looking information on the ECL based on the 3 scenarios is reflected below.

Impact of forward-looking information on ECL	R'm	Percentage (%) change in ECL
2023		
Probability-weighted impact of all 3 scenarios	753	
100% negative scenario	886	17.7
100% baseline scenario	758	0.7
100% positive scenario	603	(19.9)

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates continued

3.2.1 Forward-looking information incorporated in the impairment of loans and advances continued

(i) Retail bank continued

Impact of forward-looking information on ECL	R'm	Percentage (%) change in ECL
2022		
Probability-weighted impact of all 3 scenarios	2 957	
100% negative scenario	3 321	12.3
100% baseline scenario	2 867	(3.0)
100% positive scenario	2 669	(9.7)

The decrease in the total forward-looking component of ECL, as set out in the table above, is reflective of the relative stabilisation of macroeconomic variables compared to the prior year. In addition, in the prior year, macroeconomic variables were forecast to weaken. This materialised, in the current year, in increased credit losses as well as increased SICR.

(ii) Business bank

The BER provided management with a set of forward-looking macroeconomic scenarios and associated probabilities covering a planning horizon of 5 years in February 2023. The ALCO reviewed and approved the BER's forward-looking macroeconomic outlook.

The scenarios provided by the BER comprised a baseline scenario, a positive scenario and a negative scenario. In designing the narrative of the scenarios, their severity and the assignment of the probabilities attached to the scenarios, the BER applied expert judgement. The severity of the scenarios impacted the weightings for 2023. The scenarios are linked to PDs to derive a forward-looking ECL.

The main considerations of the BER in setting the scenarios are outlined below. These then impact on the forecast macroeconomic variables.

- The economic growth outlook of South Africa's major trading partners and the impact it has on the demand for South Africa's exports of goods and services to these markets.
- Global inflationary pressures, the global interest rate response and the potential duration of the current cycle.
- Looming domestic risks, including increased and prolonged levels of load shedding and the grey listing by the FATF in February 2023.
- Specifically, in the negative scenario, a reduction in the oil demand introduces a lower oil price, among other assumptions.

The probability weightings for the 12-month forecast period for each of the scenarios, as set out in the following table, were accepted by management.

Scenario probability	2023
Baseline (%)	53
Negative (%)	24
Positive (%)	23

The relevance of the outlook to Capitec's Business bank loan book is proven by a historical linear relationship to a change in a basket of macroeconomic variables. These variables, which were increased in the current year following the expansion of the segmentation of the forward-looking macroeconomic model, are:

	Bad		Baseline		Good	
Macroeconomic variable	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER	Average remainder of forecast BER
2023						
Unemployment (%)	33.0	33.2	32.3	30.5	31.8	28.1
CPI	5.6	4.7	5.4	4.5	5.2	4.5
Brent crude oil (USD per barrel)	82.8	75.7	87.3	77.5	87.3	77.5
Producer price index	6.0	4.3	6.1	4.2	5.9	4.4
Debt as a percentage of disposable household net income	9.3	9.2	9.0	8.6	8.9	8.4
Private sector credit extension to households	1.0	0.4	1.2	1.2	1.4	2.1
Private sector credit extension to firms	(2.1)	0.5	(1.6)	2.0	(0.9)	3.1
Effective firm lending rate	9.6	9.0	9.3	8.2	9.3	7.5
House price index	2.1	4.9	3.1	6.4	3.5	7.7

Impact of forward-looking information on ECL – 2023

The forward-looking macroeconomic information in the table above has been incorporated into ECL estimates through the application of quantitative modelling and expert judgement-based post-model adjustments. The group stratifies aspects such as client risk segments, product type and the behaviour score of the client. The risk segmentation of the forward-looking macroeconomic model was expanded to use the most appropriate macroeconomic variables. These are correlated to determine the impact of forward-looking macroeconomic information on the ECL for loans grouped into 6 internally developed client behaviour score segments.

A new methodology for incorporating forward-looking information was developed for the Business bank during the current year to align the methodology with that of the Retail bank. The impact of forward-looking macroeconomic information on ECL is determined based on historical relationships between movements in the macroeconomic variables and default rates.

The impact of forward-looking information on the ECL, based on the 3 scenarios, is reflected below.

Impact of forward-looking information on ECL	R'm	Percentage (%) change in ECL
2023		
Probability-weighted impact of all 3 scenarios	97	
100% negative scenario	106	9.3
100% baseline scenario	96	(1.0)
100% positive scenario	90	(7.2)

Impact of forward-looking information on ECL – 2022

In response to the uncertain economic environment as described above, the following processes were undertaken as part of determining the ECL:

- Based on the significant level of judgement and how levels of historical data informed the previous forward-looking methodology, a new methodology was developed
- A forward-looking ECL calculation was performed to determine the required ECL given an expected increase in PD across the loan book due to the above-mentioned economic stress
- The reliance on commercial and residential property as collateral was reduced to reflect the expectation that a higher default environment with rising interest rates is expected to reduce demand for property leading to longer recovery times on security held as well as a reduction in recovery amounts.

Notes to the financial statements continued

Year ended 28 February 2023

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates continued

3.2.1 Forward-looking information incorporated in the impairment of loans and advances continued

(ii) **Business bank** continued

Impact of forward-looking information on ECL – 2022 continued

The impact of forward-looking information on ECL was R97 million.

Impact of forward-looking information on ECL	R'm
PD and LGD at 110% of current forward-looking level	10
PD and LGD at 90% of current forward-looking level	(10)

3.2.2 Event-driven management credit estimates

(i) **Retail bank**

Certain events/risks that may not be incorporated into the statistical forward-looking model arise from time to time. In such instances, the additional inclusions in the ECL over and above the adjustment to ECL arising from forward-looking information are reviewed and approved by the credit committee on a monthly basis.

In the current and comparative year, an amount was added to the ECL to consider the impact on ECL of a change in the retrenchment cover. The retrenchment insurance changed from covering the full outstanding balance to covering 24 instalments for new loans originated from 10 May 2020.

In the comparative period, an amount related to the introduction of DebiCheck in November 2021 was added to the ECL. DebiCheck impacts the collection of cash flows on loans and advances where clients move their bank accounts, change debit order dates or where there are changes in the rescheduled contractual cash flows. If clients fail to electronically confirm (authenticate) updated debit orders, the group could fail to collect the agreed upon instalment on the agreed upon date. The risk is increased in the event of rescheduling loans of those clients where debit orders are collected from other banks and therefore needs to be authenticated by clients with other banks.

3.2.3 Modelling assumptions

(i) **Retail bank**

Historical data may not always be reflective of the future. The way in which it is used by the statistical models (PD, EAD and LGD) to estimate the timing and amount of the forecast cash flows, based on historical default data, roll rates and recoveries requires consideration of subsegments.

These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status as well as the behaviour score of the client.

(ii) **Business bank**

Management judgement is required to consider how historical data is used to project ECL. In response to this, all components of the ECL statistical model (PD, EAD and LGD) used to estimate the timing and amount of forecast cash flows based on historical default data and recoveries have been recalibrated.

4. Cash and cash equivalents

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Cash on hand	3 345 159	2 870 552	—	—
Rand-denominated bank balances	13 146 612	17 994 708	9 633	727 055
Foreign currency-denominated bank balances	1 472 530	1 887 866	—	—
Resale agreements: Banks	9 853 732	8 442 802	—	—
Central bank balances				
Mandatory reserve deposits with the central bank[1]	3 196 654	3 043 900	—	—
Cash and cash equivalents	31 014 687	34 239 828	9 633	727 055
Non-cash adjustment: Provision for ECL[2]	(748)	(1 000)	—	—
Total cash and cash equivalents[3]	31 013 939	34 238 828	9 633	727 055
Maximum exposure to credit risk	31 014 687	34 239 828	9 633	727 055
Current portion	31 013 939	34 238 828	9 633	727 055

(1) Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations imposed by the central bank. These deposits bear no interest.

(2) Cash and cash equivalents are invested with banking institutions. Cash and cash equivalents comprise stage 1 balances with no movement between the stages during the current and prior financial years. The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance measured as a 12-month ECL because the credit risk has not increased significantly since initial recognition and no balances are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) were determined using an appropriate model. The PD was determined with reference to the favourable credit ratings of the banking institutions and the LGD was determined based on whether the financial instruments are secured by recognised collateral. The resale agreements with banks are secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition. The SICR thresholds applied are the same as those applied within the Business bank portfolio to ensure consistency in the way that a SICR is identified for a particular counterparty and for similar exposures.

(3) Cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition. Cash and cash equivalents are stated at amortised cost which approximates fair value due to the short-term nature of these instruments. Refer to note 2.4 for a description of the nature of these balances.

5. Financial assets at FVTPL

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	—	2 969 740	—	—
Net additions – capital[4]	240 000	—	—	—
Capital growth[2]	—	1 160	—	—
Accrued interest[2]	415 915	12 010	—	—
Maturities – interest received	(366 864)	(22 690)	—	—
Disposal – capital[3]	—	(2 960 220)	—	—
Total financial assets at FVTPL[1]	289 051	—	—	—
Maximum exposure to credit risk	289 051	—	—	—
Current portion	289 051	—	—	—

(1) Financial assets at FVTPL comprise investments in money market funds (2022: interest-bearing investments in CIS other than money market funds). The fair value of financial assets that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuations are described in the fair value hierarchy analysis.

(2) These movements have been included in the income statement as part of interest income on other financial instruments at FVTPL (2022: other income).

(3) These movements represent cash flows received on interest-bearing CIS, which comprise investing activities.

(4) These movements represent cash outflows on the investments in money market funds, which comprise operating cash flows.

Notes to the financial statements continued

Year ended 28 February 2023

6. Financial investments at amortised cost

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	62 939 724	34 993 528	–	–
Additions	47 216 977	63 671 460	–	–
Interest accrued	4 038 697	3 328 308	–	–
Movement in ECL[2]	4 939	(40 982)	–	–
Maturities – capital	(49 652 992)	(36 477 246)	–	–
Maturities – interest received	(3 513 108)	(2 535 344)	–	–
Total financial investments at amortised cost[1]	**61 034 237**	**62 939 724**	–	–
Maximum exposure to credit risk	61 138 020	63 048 447	–	–
Current portion	48 364 819	50 930 254	–	–
Non-current portion	12 669 418	12 009 470	–	–

[1] Financial investments at amortised cost are interest-bearing investments with a maturity greater than 3 months from date of acquisition. These instruments are of a lower credit risk and comprise government bonds (the non-current portion) and treasury bills (the current portion). They are held with the objective of collecting contractual cash flows.

[2] Financial investments at amortised cost comprise stage 1 balances with no movement between the stages during the current and prior financial years. The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance of R103.8 million (2022: R108.7 million) measured as a 12-month ECL because the credit risk has not increased significantly since initial recognition and no balances are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) were determined using an appropriate model. The PD was determined with reference to the favourable credit rating of the issuer and the LGD was determined based on the fact that the financial instruments are not secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition. The SICR criteria applied for government interest-bearing investments are disclosed in the group's accounting policies.

7. Term deposit investments

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	722 190	312 859	–	–
Additions	3 650 000	1 200 000	–	–
Interest accrued	191 998	36 609	–	–
Movement in ECL[2]	(902)	(44)	–	–
Maturities – capital	(900 000)	(800 000)	–	–
Maturities – interest received	(35 124)	(27 234)	–	–
Total term deposit investments[1]	**3 628 162**	**722 190**	–	–
Maximum exposure to credit risk	3 629 108	722 190	–	–
Current portion	3 628 162	722 190	–	–

[1] Term deposit investments comprise term to notice and fixed-term instruments with a maturity date of more than 3 months, but contractually less than 1 year.

[2] Term deposit investments are held with banking institutions. Term deposit investments comprise stage 1 balances with no movement between the stages during the current and prior financial years. The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance of less than R1 million (2022: less than R1 million) measured as a 12-month ECL because the credit risk has not increased significantly since initial recognition and no balances are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) were determined using an appropriate model. The PD was determined with reference to the favourable credit rating of the issuers and the LGD is determined based on the fact that the financial instruments are not secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition. The SICR thresholds applied are the same as those applied within the Business bank portfolio to ensure consistency in the way that a SICR is identified for a particular counterparty and for similar exposures.

8. Net loans and advances

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Loans and advances to clients				
Gross loans and advances[1]	97 814 471	84 107 924	–	–
Retail[2]	82 296 744	71 214 005	–	–
Business loans[2]	7 462 885	6 175 071	–	–
Mortgage loans	8 054 842	6 718 848	–	–
Provision for credit impairments (ECL)	(19 646 668)	(17 558 821)	–	–
Retail[2]	(18 805 698)	(16 776 408)	–	–
Business loans[2]	(633 413)	(610 129)	–	–
Mortgage loans	(207 557)	(172 284)	–	–
Net loans and advances	**78 167 803**	**66 549 103**	–	–
Current portion	25 763 453	21 995 347	–	–
Non-current portion	52 404 350	44 553 756	–	–
Maximum exposure to credit risk				
Loans and advances	98 090 457	84 400 732	–	–
Retail loan commitments[3][4]	15 799 468	11 300 483	–	–
Business loan commitments and guarantees[3][4]	1 107 332	883 511	–	–
Maximum exposure to credit risk	**114 997 257**	**96 584 726**	–	–
Maturity analysis				
Current portion (less than 1 year)	29 453 739	26 104 954	–	–
Demand to 1 month	5 455 335	4 549 603	–	–
1 to 3 months	4 942 542	4 574 244	–	–
3 months to 1 year	19 055 862	16 981 107	–	–
Non-current portion (more than 1 year)	68 636 718	58 295 778	–	–
1 to 2 years	19 856 423	17 918 838	–	–
2 to 5 years	30 332 145	26 139 544	–	–
More than 5 years	5 097 016	4 165 519	–	–
Non-contractual[5]	13 351 134	10 071 877	–	–
Total	98 090 457	84 400 732	–	–
Loan origination fees – deferred	(275 986)	(292 808)	–	–
Gross loans and advances (gross carrying amount)	**97 814 471**	**84 107 924**	–	–

[1] Balances written off during the current year that are still subject to enforcement activities are:
Retail loans: R6.2 billion (2022: R5.4 billion)
Mortgage loans: R19.6 million (2022: R15.5 million)
Business loans: R95.1 million (2022: R0.6 million)
Recoveries on these loans are included in bad debts recovered. Refer to note 26.

[2] Retail loans comprise term loans, credit card loans and access facilities. Business loans comprise loans granted to Business bank clients and include term loans, rental finance, structured loans and credit card loans. The aggregation of the loans and advances disclosure for the Retail bank and the Business bank is appropriate. It is based on loans and advances with similar characteristics. These characteristics include the credit committees that are responsible for managing the loan books, shared credit risk characteristics in determining the loss allowance for ECL and a similar client base in the same geographical location.

[3] For agreements that contain both a drawn and undrawn component where the group cannot separately identify the ECL on the undrawn component, the ECL on the undrawn component is recognised with the ECL on the loan component. To the extent that the ECLs exceed the gross carrying amount of the loans at a client level, the excess is recognised as a provision in other liabilities in the statement of financial position. The loss allowance on the undrawn loan commitments of clients that have no outstanding balances is also recognised as a provision in other liabilities. Refer to note 18.

[4] These are irrevocable commitments and guarantees that may be drawn down without any credit intervention. These can be revoked within a period of less than a month.

[5] Stage 3 loans more than 3 months in arrears and stage 3 loans with legal statuses.

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure

The following tables contain an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognised. The gross carrying amount of the financial assets below also represents the group's maximum exposure to credit risk on these assets. Refer to note 2.5.1.2.5 for explanations of the terminology used.

Analysis of net loans and advances by stage – Retail bank

	Stage 1 12-month ECL	Stage 2 Lifetime ECL		Stage 3 Lifetime ECL					
R'000	Up-to-date[(1)]	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[(2)]	Up to 1 month in arrears	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
2023									
Gross loans and advances	50 319 503	9 803 384	1 951 210	1 763 891	2 201 601	1 917 476	1 914 684	12 424 995	82 296 744
Provision for credit impairments (ECL)	(3 633 618)	(2 218 982)	(467 985)	(850 784)	(1 492 896)	(583 684)	(527 206)	(9 030 543)	(18 805 698)
	46 685 885	7 584 402	1 483 225	913 107	708 705	1 333 792	1 387 478	3 394 452	63 491 046
ECL coverage by category (%)	7.2	22.6	24.0	48.2	67.8	30.4	27.5	72.7	22.9
ECL coverage by stage (%)									
Stage 1	7.2								
Stage 2	26.2								
Stage 3	63.0								
2022									
Gross loans and advances	44 591 309	8 327 423	3 059 184	1 372 452	1 743 375	1 174 535	1 634 095	9 311 632	71 214 005
Provision for credit impairments (ECL)	(4 825 792)	(1 771 083)	(647 574)	(673 246)	(1 205 782)	(346 173)	(454 690)	(6 852 068)	(16 776 408)
	39 765 517	6 556 340	2 411 610	699 206	537 593	828 362	1 179 405	2 459 564	54 437 597
ECL coverage by category (%)	10.8	21.3	21.2	49.1	69.2	29.5	27.8	73.6	23.6
ECL coverage by stage (%)									
Stage 1	10.8								
Stage 2	24.2								
Stage 3	63.9								

(1) *Analysis of stage 1 gross loans and advances:*

R'000	*2023*	*2022*
Stage 1 – up-to-date		
Up-to-date not previously rescheduled	*48 020 439*	*41 597 514*
Rescheduled from up-to-date and have rehabilitated	*1 034 631*	*1 161 218*
Rescheduled from arrears and have rehabilitated	*806 410*	*797 598*
Rehabilitated COVID-19 reschedules	*458 023*	*1 034 979*
Gross loans and advances – Stage 1	*50 319 503*	*44 591 309*

(2) *Comprises loans where forward-looking information results in a SICR trigger. Refer to note 3.1.1.*

Credit quality – Retail bank

The internal credit rating risk buckets used to explain low, medium and high risk were subjectively determined by bucketing accounts by behavioural scores at the reporting date. New loans may be granted to certain high-risk clients depending on the credit granting strategy and granting scorecards. The increased risk resulting from a SICR and forward-looking information is set out in note 3.1.1 and note 3.2.1, respectively. For Retail bank, behavioural scores range from 666 (lowest risk) to zero (highest risk). The low-risk band applied was 648 to 666, the medium-risk band 621 to 647 and the high-risk band 0 to 620. The same bands were used in 2022.

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Low	38 490 998	6 134 930	672 448	45 298 376
Medium	10 660 261	4 432 421	1 807 584	16 900 266
High	1 168 244	2 951 134	15 978 724	20 098 102
On-balance sheet	50 319 503	13 518 485	18 458 756	82 296 744
Low	13 372 134	250 242	—	13 622 376
Medium	1 868 070	151 767	—	2 019 837
High	129 544	27 711	—	157 255
Off-balance sheet	15 369 748	429 720	—	15 799 468
2022				
Low	33 453 151	5 705 602	643 962	39 802 715
Medium	10 097 581	4 583 066	1 807 715	16 488 362
High	1 040 577	2 470 391	11 411 960	14 922 928
On-balance sheet	44 591 309	12 759 059	13 863 637	71 214 005
Low	9 223 649	208 870	—	9 432 519
Medium	1 451 050	278 008	—	1 729 058
High	20 587	118 319	—	138 906
Off-balance sheet	10 695 286	605 197	—	11 300 483

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure continued

Analysis of net loans and advances by stage – Business bank

R'000	Stage 1 12-month ECL		Stage 2 Lifetime ECL						Stage 3 Lifetime ECL	
	Up-to-date[1]	Up to 1 month in arrears	Up-to-date loans SICR	Forward-looking SICR[4]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[2]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
2023										
Gross loans and advances	13 043 331	133 760	413 212	264 536	89 511	346 469	98 749	–	1 128 159	15 517 727
Business loans	6 142 780	82 181	228 681	133 379	39 448	312 788	27 298	–	496 330	7 462 885
Mortgage loans[3]	6 900 551	51 579	184 531	131 157	50 063	33 681	71 451	–	631 829	8 054 842
Provision for credit impairments (ECL)	(225 464)	(2 795)	(99 036)	(28 285)	(21 138)	(17 179)	(11 509)	–	(435 564)	(840 970)
Business loans	(196 332)	(2 493)	(84 963)	(20 197)	(17 404)	(14 511)	(6 454)	–	(291 059)	(633 413)
Mortgage loans	(29 132)	(302)	(14 073)	(8 088)	(3 734)	(2 668)	(5 055)	–	(144 505)	(207 557)
	12 817 867	130 965	314 176	236 251	68 373	329 290	87 240	–	692 595	14 676 757
ECL coverage by category (%)	1.7	2.1	24.0	10.7	23.6	5.0	11.7		38.6	5.4
ECL coverage by stage (%)										
Stage 1	1.7									
Stage 2	14.6									
Stage 3	38.6									

Refer to the footnotes on page 201.

R'000	Stage 1 12-month ECL		Stage 2 Lifetime ECL						Stage 3 Lifetime ECL	
	Up-to-date[1]	Up to 1 month in arrears	Up-to-date loans SICR	Forward-looking SICR[4]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[2]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
2022										
Gross loans and advances	10 590 745	115 337	313 875	–	36 751	151 559	125 736	658 781	901 135	12 893 919
Business loans	4 998 554	35 394	249 222	–	25 462	110 878	20 763	307 042	427 756	6 175 071
Mortgage loans[3]	5 592 191	79 943	64 653	–	11 289	40 681	104 973	351 739	473 379	6 718 848
Provision for credit impairments (ECL)	(195 129)	(1 218)	(69 209)	–	(15 170)	(15 730)	(9 294)	(112 424)	(364 239)	(782 413)
Business loans	(169 516)	(1 003)	(65 819)	–	(13 416)	(9 631)	(2 959)	(69 597)	(278 188)	(610 129)
Mortgage loans	(25 613)	(215)	(3 390)	–	(1 754)	(6 099)	(6 335)	(42 827)	(86 051)	(172 284)
	10 395 616	114 119	244 666	–	21 581	135 829	116 442	546 357	536 896	12 111 506
ECL coverage by category (%)	1.8	1.1	22.0		41.3	10.4	7.4	17.1	40.4	6.1
ECL coverage by stage (%)										
Stage 1	1.8									
Stage 2	17.2									
Stage 3	40.4									

(1) *Analysis of stage 1 gross loans and advances:*

R'000	*2023*	*2022*
Stage 1 – up-to-date		
Up-to-date not previously rescheduled	*12 824 195*	*10 452 630*
Rescheduled from up-to-date and have rehabilitated	*1 144*	*3 982*
Rescheduled from arrears and have rehabilitated	*43 493*	*23 250*
Rehabilitated COVID-19 reschedules	*174 499*	*110 883*
Gross loans and advances – Stage 1	***13 043 331***	***10 590 745***

(2) *In response to COVID-19, clients were offered moratoriums or rescheduling on loans that were up-to-date at the end of February 2020. These loans are no longer monitored separately and have migrated to other stages. By February 2023, the balance of these loans in stage 1 as a result of rehabilitation was R270 million; R411 million remained in stage 2 and R202 million was in stage 3 as a result of default. The ECL was determined by the existing ECL model. COVID-19-related rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling and are up-to-date with their amended contractual obligations.*

(3) *Consists of mortgage loans where Capitec was the credit provider. These do not include loans provided in association with SA Home Loans as Capitec is the originator and not the credit provider and does not service those loans.*

(4) *A new methodology for incorporating forward-looking information in measuring the ECL was developed for the Business bank during the current year to align the methodology to that of the Retail bank. The impact of forward-looking macroeconomic information on the allowance for ECL is determined based on historical relationships between movements in the macroeconomic variables and default rates. Refer to note 3.2.1(ii). The impact of the forward-looking information on the allowance for ECL was included in the ECL for up-to-date loans SICR in the prior year.*

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure continued

Credit quality – Business bank

The internal credit risk buckets were determined subjectively. Parameters included arrears, industry and geographical risk, and whether reschedules were distressed or not for stage 1 and stage 2. For stage 3, litigation, business rescue, sequestration and write-off were considered.

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Low				
Business loans	5 866 032	237 618	—	6 103 650
Mortgage loans	6 935 469	192 551	—	7 128 020
Medium				
Business loans	358 929	133 923	—	492 852
Mortgage loans	16 661	166 710	—	183 371
High				
Business loans	—	370 053	496 330	866 383
Mortgage loans	—	111 622	631 829	743 451
On-balance sheet	13 177 091	1 212 477	1 128 159	15 517 727
Low				
Business loans	782 839	35 051	5	817 895
Mortgage loans	250 050	—	—	250 050
Medium				
Business loans	15 722	13 393	—	29 115
Mortgage loans	—	—	—	—
High				
Business loans	—	—	10 272	10 272
Mortgage loans	—	—	—	—
Off-balance sheet	1 048 611	48 444	10 277	1 107 332
2022				
Low				
Business loans	4 488 092	50 844	—	4 538 936
Mortgage loans	5 505 875	32 445	—	5 538 320
Medium				
Business loans	545 855	210 852	—	756 707
Mortgage loans	166 260	43 497	—	209 757
High				
Business loans	—	451 672	427 756	879 428
Mortgage loans	—	497 392	473 379	970 771
On-balance sheet	10 706 082	1 286 702	901 135	12 893 919
Low				
Business loans	632 905	—	—	632 905
Mortgage loans	248 523	—	—	248 523
Medium				
Business loans	—	—	—	—
Mortgage loans	—	—	—	—
High				
Business loans	—	—	—	—
Mortgage loans	—	2 078	5	2 083
Off-balance sheet	881 428	2 078	5	883 511

Analysis of gross loans and advances – Retail bank

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Balance as at 1 March 2022	44 591 309	12 759 059	13 863 637	71 214 005
Net loan sales[1]	54 425 456	(1 159 470)	(340 936)	52 925 050
New loan sales	63 739 326	—	—	63 739 326
Loans derecognised (other than write-offs)	(9 313 870)	(1 159 470)	(340 936)	(10 814 276)
Income accrued for the year[2]	15 089 900	2 202 407	3 471 996	20 764 303
Transfers				
Stage 1 to stage 2	(10 585 686)	10 585 686	—	—
Stage 1 to stage 3	(11 166 990)	—	11 166 990	—
Stage 2 to stage 3	—	(2 503 314)	2 503 314	—
Stage 3 to stage 2	—	351 774	(351 774)	—
Stage 3 to stage 1	985 802	—	(985 802)	—
Stage 2 to stage 1	3 078 451	(3 078 451)	—	—
Repayments	(46 098 739)	(5 639 206)	(4 432 733)	(56 170 678)
Modifications	—	—	(687 748)	(687 748)
Write-offs	—	—	(5 748 188)	(5 748 188)
Balance as at 28 February 2023	50 319 503	13 518 485	18 458 756	82 296 744
2022				
Balance as at 1 March 2021	38 711 431	10 183 153	15 090 981	63 985 565
Net loan sales[1]	45 929 885	(1 503 534)	(494 445)	43 931 906
New loan sales	55 713 362	—	—	55 713 362
Loans derecognised (other than write-offs)	(9 783 477)	(1 503 534)	(494 445)	(11 781 456)
Income accrued for the year[2]	13 056 058	1 905 714	3 244 615	18 206 387
Transfers				
Stage 1 to stage 2	(12 907 151)	12 907 151	—	—
Stage 1 to stage 3	(7 140 420)	—	7 140 420	—
Stage 2 to stage 3	—	(2 002 516)	2 002 516	—
Stage 3 to stage 2	—	692 718	(692 718)	—
Stage 3 to stage 1	1 670 620	—	(1 670 620)	—
Stage 2 to stage 1	4 438 863	(4 438 863)	—	—
Repayments	(39 167 977)	(4 984 764)	(4 646 869)	(48 799 610)
Modifications	—	—	(660 523)	(660 523)
Write-offs	—	—	(5 449 720)	(5 449 720)
Balance as at 28 February 2022	44 591 309	12 759 059	13 863 637	71 214 005

(1) New loan sales are originated in stage 1 with subsequent change in staging to year-end reflected under transfers. New loans sales include new loans issued on consolidating pre-existing loans. The loans settled on consolidation are disclosed separately as loans derecognised (other than write-offs). Monthly credit card and access facility disbursements are included in new loan sales.

(2) Income accrued for the year comprises interest received on loans, initiation fees, monthly service fees and credit life premiums.

Notes to the financial statements continued
Year ended 28 February 2023

8. Net loans and advances continued
Credit risk exposure continued
Analysis of gross loans and advances – Business bank

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Business loans				
Balance as at 1 March 2022	5 033 948	713 367	427 756	6 175 071
New loan sales[1]	62 898 954	—	—	62 898 954
Income accrued for the year[2]	608 156	67 669	46 801	722 626
Transfers				
Stage 1 to stage 2	(320 374)	320 374	—	—
Stage 1 to stage 3	(170 906)	—	170 906	—
Stage 2 to stage 3	—	(119 021)	119 021	—
Stage 3 to stage 2	—	843	(843)	—
Stage 3 to stage 1	1 712	—	(1 712)	—
Stage 2 to stage 1	118 876	(118 876)	—	—
Repayments	(61 945 405)	(122 762)	(99 494)	(62 167 661)
Write-offs	—	—	(166 105)	(166 105)
Balance as at 28 February 2023	6 224 961	741 594	496 330	7 462 885
2022				
Business loans				
Balance as at 1 March 2021	4 479 679	599 172	360 499	5 439 350
New loan sales[1]	51 635 214	—	—	51 635 214
Income accrued for the year[2]	401 007	53 885	34 817	489 709
Transfers				
Stage 1 to stage 2	(213 387)	213 387	—	—
Stage 1 to stage 3	(71 128)	—	71 128	—
Stage 2 to stage 3	—	(21 683)	21 683	—
Stage 3 to stage 2	—	48	(48)	—
Stage 3 to stage 1	917	—	(917)	—
Stage 2 to stage 1	52 064	(52 064)	—	—
Repayments	(51 250 418)	(79 378)	(5 873)	(51 335 669)
Write-offs	—	—	(53 533)	(53 533)
Balance as at 28 February 2022	5 033 948	713 367	427 756	6 175 071

[1] *Monthly credit card and overdraft disbursements are included in new loan sales.*
[2] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.*

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Mortgage loans				
Balance as at 1 March 2022	5 672 134	573 335	473 379	6 718 848
New loan sales	2 584 946	—	—	2 584 946
Income accrued for the year[1]	591 528	45 758	57 069	694 355
Transfers				
Stage 1 to stage 2	(300 389)	300 389	—	—
Stage 1 to stage 3	(75 134)	—	75 134	—
Stage 2 to stage 3	—	(141 196)	141 196	—
Stage 3 to stage 2	—	8 582	(8 582)	—
Stage 3 to stage 1	2 927	—	(2 927)	—
Stage 2 to stage 1	228 637	(228 637)	—	—
Repayments	(1 752 519)	(87 348)	(77 990)	(1 917 857)
Write-offs	—	—	(25 450)	(25 450)
Balance as at 28 February 2023	6 952 130	470 883	631 829	8 054 842
2022				
Mortgage loans				
Balance as at 1 March 2021	4 505 847	695 876	399 718	5 601 441
New loan sales	2 267 880	—	—	2 267 880
Income accrued for the year[1]	353 588	50 320	33 434	437 342
Transfers				
Stage 1 to stage 2	(80 920)	80 920	—	—
Stage 1 to stage 3	(70 795)	—	70 795	—
Stage 2 to stage 3	—	(53 605)	53 605	—
Stage 3 to stage 2	—	—	—	—
Stage 3 to stage 1	11 830	—	(11 830)	—
Stage 2 to stage 1	117 531	(117 531)	—	—
Repayments	(1 432 827)	(82 645)	(50 616)	(1 566 088)
Write-offs	—	—	(21 727)	(21 727)
Balance as at 28 February 2022	5 672 134	573 335	473 379	6 718 848

[1] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.*

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure continued

Modification losses

R'000	2023 Amortised cost before modification	2023 Modification losses	2023 Gross carrying amount at year-end of loans that cured to stage 1[1]	2022 Amortised cost before modification	2022 Modification losses	2022 Gross carrying amount at year-end of loans that cured to stage 1[1]
Modifications on loans and advances – Retail bank						
Debt review	2 330 592	687 578	44	1 794 309	657 443	1 078
Interest rate change	19 073	170	9 729	120 152	3 080	66 314
Total modified loans	2 349 665	687 748	9 773	1 914 461	660 523	67 392

[1] *This reflects the gross carrying amount at year-end of the loans on which a modification loss occurred during the year that cured to stage 1.*

Factors impacting and contributing to significant changes in the ECL during the year

(i) Retail bank

Gross loans and advances increased by 16% to R82.3 billion (2022: R71.2 billion), primarily driven by the 20% growth in loan sales and disbursements. The provision for ECL increased by 12% to R18.8 billion (2022: R16.8 billion). The overall ECL coverage ratio was 22.6% (2022: 23.6%).

Credit granted increased by 20% to R52.9 billion (2022: R43.9 billion). This was primarily driven by the access facility and credit card disbursements that grew by 40% and 22%, respectively, to R19.8 billion (2022: R14.2 billion) and R13.5 billion (2022: R11.0 billion). The 2 products combined comprised 63% (2022: 57%) of the total loan sales and disbursements.

The shift in the composition of the total loan sales and disbursements is illustrated in the table below.

%	2023	2022
Term loans	37	43
Access facilities	37	32
Credit cards	26	25
	100	100

The shift towards facility products has been driven by the granting strategy over the past 2 years. Facility products provide the ability to adjust limits in realtime in accordance with the associated credit risk. The credit risk on these products is actively monitored.

The composition of the gross loans and advances shifted more towards stage 2 and stage 3 as illustrated in the analysis of net loans and advances by stage.

The growth in stage 1 gross loans and advances was driven by net loan sales of R52.9 billion. Balances moving from stage 1 to stage 3 amounted to R11.2 billion compared to R7.1 billion during 2022. This increase was largely due to the high level of clients going into debt review, specifically subsequent to August 2022. This trend was driven by current economic conditions as well as increased targeting of consumers by debt counsellors.

The total up-to-date loans and advances included in stage 2 was R11.8 billion (2022: R11.4 billion). These balances comprise the loans of clients that have shown a SICR and loans where forward-looking information results in a SICR trigger. Loan balances with forward-looking SICR decreased from R3.1 billion to R2.0 billion at the end of February 2023. Most of these balances moved to the up-to-date with SICR category as the forward-looking macroeconomic forecasts made in 2022 realised in the loan book.

The stage 3 loan book increased to R18.5 billion (2022: R13.9 billion). Loan balances in arrears for more than 3 months, handed over balances and balances where clients applied for debt review within the 6 previous months (the default book) increased by 33% to R12.4 billion (2022: R9.3 billion). Debt review and handed over balances increased to R5.6 billion (2022: R4.9 billion) and R4.9 billion (2022: R3.8 billion), respectively.

The coverage ratio trends by stage are analysed in the table below.

%	2023	2022
Stage 1	7.2	10.8
Stage 2	26.2	24.2
Stage 3	63.0	63.9
Total	22.9	23.6

The stage 1 coverage ratio decreased as the loans to which the 2022 forward-looking macroeconomic provision related migrated to stage 2 and stage 3 as expected. As at February 2022, a large proportion of the provision was included in stage 1 as these were the balances that would be most affected by the forward-looking macroeconomic information. The provision on balances that had already rolled into stage 2 and 3 was already held at higher coverage ratio levels and a smaller increase in the provision would be required should they roll into default. The coverage ratio remains above pre-COVID-19 levels due to the remaining risk that is reflected in the forward-looking macroeconomic forecast.

The stage 2 coverage ratio was also impacted by the migration of loans to which the 2022 forward-looking macroeconomic provision related, but to a lesser extent. The coverage ratio on balances showing SICR and with forward-looking SICR indicator increased to 22.6% (2022: 21.3%) and 24.0% (2022: 21.2%), respectively. These balances, although up-to-date, reflect the increase in financial strain on our clients and higher provision percentages are applied based on movements in behaviour scores.

The stage 3 coverage ratio shows a declining trend and is currently below pre-COVID-19 levels. The coverage ratio on the default book (more than 3 months in arrears, legal statuses and applied for debt review within the last 6 months book) at the end of February 2023 was 72.7% (2022: 73.6%). It was impacted by a change in the mix of the default book. Despite the increases in debt review balances, they comprised 45% of the default book (2022: 52%), while handed over balances comprised 39% (2022: 40%). The remaining 16% of the default book (2022: 8%) was subject to collection action by the bank. These balances carry lower provision percentages than the debt review and handed over balances because payment arrangements are in place with the affected clients and their behaviour scores have not deteriorated to the point where handover or write-off takes place. Therefore, as this portion of the book increases, the overall coverage ratio decreases.

(ii) Business bank

Gross loans and advances, which comprise business loans and mortgage loans, increased by 20% to R15.5 billion (2022: R12.9 billion).

Business loans

The gross loan book increased by R1.3 billion to R7.5 billion and the provision for ECL increased by R23 million to R633 million.

The gross stage 1 loan book increased by R1.2 billion to R6.2 billion. New loan sales amounted to R62.9 billion for the year (2022: R51.6 billion). Repayments totalled R61.9 billion (2022: R51.3 billion). The total movements out of stage 1 into stages 2 and 3 amounted to R491 million for the year (2022: R285 million). This includes R133 million in stage 1 exposures moving to stage 2 forward-looking information (FLI) SICR. Clients showing an improvement in credit quality and therefore moving from stages 2 and 3 to stage 1 amounted to R121 million (2022: R53 million). The stage 1 book comprised 83% (2022: 82%) of the book.

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure continued

Factors impacting and contributing to significant changes in the ECL during the year continued

(ii) **Business bank** continued

Business loans continued

The up-to-date loans SICR balances decreased from R249 million to R229 million. This was driven by clients rolling through to stage 3 (R109 million), clients being upgraded to stage 1 (R79 million), and settlements (R17 million). These movements were offset by downgrades from stage 1 to stage 2 SICR (R111 million) as well as inflows from balances previously categorised as stage 2 COVID-19-related reschedules (R77 million).

Stage 2 FLI SICR was disclosed for the current year due to application of the SICR methodology used by the Retail bank. The new FLI SICR calculation ensures there is a sufficient stage 2 SICR population based on historical experience, adjusted for forward-looking expectations. The calculation resulted in R133 million in balances moving from stage 1 to stage 2 FLI SICR.

The rescheduled from up-to-date not yet rehabilitated balances increased by R201 million to R313 million. A total of R188 million consisted of balances previously categorised as COVID-19-related reschedules. The rescheduled from arrears not yet rehabilitated balances increased by R7 million to R27 million. There were no COVID-19-related reschedules from arrears included in the book as at the end of February 2023.

The gross stage 3 book increased by R69 million to R496 million. This was driven by movements out of stages 1 and 2 into stage 3 amounting to R290 million for the year (2022: R93 million). The balance impact of rolls into default was largely offset by write-offs of R166 million (2022: R54 million) and net repayments of R99 million (2022: R6 million).

Improvement in the quality of the book during the current year led to a reduction in coverage ratios on all stages. The total ECL coverage decreased to 8.5% (2022: 9.9%). The average quality of the stage 2 book improved resulting in the stage 2 coverage ratio decreasing by 3.3% to 19.4%. An improvement in the stage 2 product mix further reduced the stage 2 coverage ratio. The stage 3 coverage ratio decreased to 58.6% largely due to proactive write-offs due to operational improvements.

Mortgage loans

The gross loan book increased by R1.3 billion to R8.1 billion and the provision for ECL increased by R35 million to R208 million.

The composition of the loan book improved as the book shifted towards stage 1, which now comprises 86% (2022: 84%) of the book. The gross stage 1 book increased by R1.3 billion to R7.0 billion. This was driven by new loan sales of R2.6 billion for the year (2022: R2.3 billion) and higher accrued income due to the repo rate increases during the current year. Accrued income was R591 million compared to R354 million for the comparative period. The total movements out of stage 1 into stages 2 and 3 amounted to R376 million (2022: R152 million). This includes R131 million in stage 1 exposures moving to stage 2 FLI SICR. The balance of clients showing an improvement in credit quality and moving from stages 2 and 3 to stage 1 amounted to R232 million (2022: R53 million).

The up-to-date loan SICR balances increased by R120 million to R185 million. This was driven by downgrades from stage 1 to stage 2 SICR (R84 million) and the inclusion of balances previously categorised as stage 2 COVID-19-related reschedules (R77 million). This was partially offset by outflows related to client upgrades to stage 1 (R33 million), settlements (R13 million) and clients rolling to stage 3 (R4 million).

The rescheduled from up-to-date balances not yet rehabilitated decreased by R7 million to R34 million. A total of R26 million of the amount consisted of COVID-19-related reschedules. The rescheduled from arrears not yet rehabilitated balances decreased by R34 million to R71 million. A total of R24 million of the amount consisted of COVID-19-related reschedules.

The gross stage 3 book increased by R158 million to R632 million. This was driven by movements out of stages 1 and 2 into stage 3 amounting to R216 million for the year (2022: R124 million). The balance impact of rolls into default was partially offset by write-offs of R25 million (2022: R22 million) and repayments of R78 million (2022: R51 million).

The total ECL coverage ratio remained unchanged at 2.6%. The stage 1 coverage ratio decreased to 0.4% due to an improvement in credit quality. The stage 2 coverage ratio decreased by 3.4% to 7.1% due to a release of management overlays on specific clients. The stage 3 coverage ratio increased by 4.7% to 22.9% largely due to model improvements. This was partially offset by balances with lower coverage ratios moving into stage 3.

Analysis of provision for ECL – Retail bank

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Balance as at 1 March 2022	**4 825 792**	**3 091 903**	**8 858 713**	**16 776 408**
Movement in the income statement[1]				
New loan sales	**1 823 902**	**1 315 993**	**2 780 009**	**5 919 904**
Stage 1 to stage 2	**(268 633)**	**1 197 505**	**—**	**928 872**
Stage 1 to stage 3	**(400 871)**	**—**	**3 612 425**	**3 211 554**
Stage 2 to stage 3	**—**	**(529 522)**	**1 278 266**	**748 744**
Stage 2 to stage 1	**120 610**	**(571 998)**	**—**	**(451 388)**
Stage 3 to stage 1	**51 641**	**—**	**(256 343)**	**(204 702)**
Stage 3 to stage 2	**—**	**92 473**	**(185 348)**	**(92 875)**
Remain in same stage	**(363 854)**	**(77 104)**	**(268 392)**	**(709 350)**
Loans and advances settled in the current year	**(577 559)**	**(311 847)**	**(970 413)**	**(1 859 819)**
Modifications	**—**	**—**	**(496 991)**	**(496 991)**
Write-offs	**(50 763)**	**(160 561)**	**(2 549 379)**	**(2 760 703)**
Change in forward-looking information[2]	**(1 526 647)**	**(509 091)**	**(168 218)**	**(2 203 956)**
Balance as at 28 February 2023	**3 633 618**	**3 537 751**	**11 634 329**	**18 805 698**
2022				
Balance as at 1 March 2021	3 637 858	3 135 151	10 411 194	17 184 203
Movement in the income statement[1]				
New loan sales	1 840 587	1 107 139	1 695 147	4 642 873
Stage 1 to stage 2	(224 059)	696 974	—	472 915
Stage 1 to stage 3	(287 597)	—	2 082 763	1 795 166
Stage 2 to stage 3	—	(469 912)	892 296	422 384
Stage 2 to stage 1	137 496	(845 947)	—	(708 451)
Stage 3 to stage 1	64 190	—	(402 117)	(337 927)
Stage 3 to stage 2	—	101 036	(222 817)	(121 781)
Remain in same stage	(216 808)	(476 208)	305 277	(387 739)
Loans and advances settled in the current year	(585 155)	(443 672)	(868 815)	(1 897 642)
Modifications	—	—	(402 171)	(402 171)
Write-offs	(35 906)	(136 199)	(3 475 296)	(3 647 401)
Change in forward-looking information[2]	495 186	423 541	(1 156 748)	(238 021)
Balance as at 28 February 2022	4 825 792	3 091 903	8 858 713	16 776 408

(1) Movement in the income statement is based on the loan stage at the beginning and end of the year. Where loans were settled or written off during the year, the individual lines in the table have not been grossed up to reflect the movement in the ECL provision during the year up to that point.

(2) Changes in forward-looking information are detailed in note 3.2.1.

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Credit risk exposure continued

Analysis of provision for ECL – Business bank

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Business loans				
Balance as at 1 March 2022	170 519	161 422	278 188	610 129
Movement in the income statement[(1)]				
New loan sales	77 073	22 226	29 211	128 510
Stage 1 to stage 2	(2 513)	41 244	—	38 731
Stage 1 to stage 3	(3 052)	—	63 861	60 809
Stage 2 to stage 3	—	(19 755)	44 961	25 206
Stage 2 to stage 1	2 604	(21 817)	—	(19 213)
Stage 3 to stage 1	24	—	(1 437)	(1 413)
Stage 3 to stage 2	—	332	(495)	(163)
Remain in same stage	(43 099)	2 760	85 786	45 447
Loans and advances settled in the current year	(14 085)	(20 742)	(53 329)	(88 156)
Write-offs	—	—	(158 651)	(158 651)
Change in forward-looking information[(2)]	11 354	(22 141)	2 964	(7 823)
Balance as at 28 February 2023	**198 825**	**143 529**	**291 059**	**633 413**
2022				
Business loans				
Balance as at 1 March 2021	159 255	85 261	222 581	467 097
Movement in the income statement[(1)]				
New loan sales	64 468	16 688	17 514	98 670
Stage 1 to stage 2	(17 349)	53 047	—	35 698
Stage 1 to stage 3	(1 358)	—	44 078	42 720
Stage 2 to stage 3	—	(6 749)	11 474	4 725
Stage 2 to stage 1	823	(7 533)	—	(6 710)
Stage 3 to stage 1	17	—	(795)	(778)
Stage 3 to stage 2	—	11	(41)	(30)
Remain in same stage	31 082	(34)	35 715	66 763
Loans and advances settled in the current year	(19 065)	(8 421)	(3 464)	(30 950)
Write-offs	—	—	(45 529)	(45 529)
Change in forward-looking information[(2)]	(47 354)	29 152	(3 345)	(21 547)
Balance as at 28 February 2022	170 519	161 422	278 188	610 129

[(1)] *Movement in the income statement is based on the stage of loans at the beginning and end of the year. Where loans were settled or written off during the year, the individual lines in the table have not been grossed up to reflect the movement in the ECL provision during the year up to that point.*

[(2)] *Changes in forward-looking information are detailed in note 3.2.1.*

R'000	Stage 1	Stage 2	Stage 3	Total
2023				
Mortgage loans				
Balance as at 1 March 2022	25 828	60 405	86 051	172 284
Movement in the income statement[(1)]				
New loan sales	14 127	5 719	992	20 838
Stage 1 to stage 2	(263)	11 470	—	11 207
Stage 1 to stage 3	(146)	—	9 267	9 121
Stage 2 to stage 3	—	(9 505)	24 494	14 989
Stage 2 to stage 1	2 985	(10 055)	—	(7 070)
Stage 3 to stage 1	—	—	(146)	(146)
Stage 3 to stage 2	—	250	(429)	(179)
Remain in same stage	(10 677)	(11 585)	42 098	19 836
Loans and advances settled in the current year	(1 497)	(1 080)	(10 320)	(12 897)
Write-offs	—	—	(24 802)	(24 802)
Change in forward-looking information[(2)]	(923)	(12 001)	17 300	4 376
Balance as at 28 February 2023	**29 434**	**33 618**	**144 505**	**207 557**
2022				
Mortgage loans				
Balance as at 1 March 2021	45 595	53 127	87 579	186 301
Movement in the income statement[(1)]				
New loan sales	9 321	8 480	561	18 362
Stage 1 to stage 2	(436)	1 427	—	991
Stage 1 to stage 3	(127)	—	6 173	6 046
Stage 2 to stage 3	—	(2 329)	4 003	1 674
Stage 2 to stage 1	155	(4 738)	—	(4 583)
Stage 3 to stage 1	9	—	(812)	(803)
Stage 3 to stage 2	—	—	—	—
Remain in same stage	3 969	(5 742)	22 837	21 064
Loans and advances settled in the current year	(6 206)	(4 350)	(16 519)	(27 075)
Write-offs	—	—	(20 897)	(20 897)
Change in forward-looking information[(2)]	(26 452)	14 530	3 126	(8 796)
Balance as at 28 February 2022	25 828	60 405	86 051	172 284

[(1)] *Movement in the income statement is based on the stage of loans at the beginning and end of the year. Where loans were settled or written off during the year, the individual lines in the table have not been grossed up to reflect the movement in the ECL provision during the year up to that point.*

[(2)] *Changes in forward-looking information are detailed in note 3.2.1.*

Notes to the financial statements continued
Year ended 28 February 2023

8. Net loans and advances continued

Detailed analysis of leases (rental assets) included in business loans

R'000	GROUP 2023	2022
Gross investment in lease receivables		
Less than 1 year	695 856	552 931
1 to 2 years	560 427	433 712
2 to 3 years	423 420	307 164
3 to 4 years	281 768	183 184
4 to 5 years	110 126	73 506
More than 5 years	4 142	1 118
Gross investment in lease receivables	2 075 739	1 551 615
Unearned finance income	(440 495)	(224 728)
Net investment in lease receivables	1 635 244	1 326 887
Net lease receivables		
Less than 1 year	496 661	441 348
1 to 5 years	1 130 819	884 549
More than 5 years	7 764	990
Net investment in lease receivables	1 635 244	1 326 887
Less: ECL	(131 011)	(97 722)
Net lease receivables	1 504 233	1 229 165

These agreements consist of rental finance agreements. The rental finance agreements are typically granted to Business bank clients to lease security equipment, copiers and telecommunication equipment. The instalment sale agreements are granted to finance the motor vehicles and equipment of our Business bank clients. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R131.0 million (2022: R97.7 million).

Analysis of the amounts recognised in the income statement for rental finance

R'000	GROUP 2023	2022
Selling profit or loss	5 105	4 675
Finance income on the net investment in leases	185 750	135 692
Income relating to variable lease payments not included in the measurement of the net investment in leases	25 734	18 535

Significant changes in the carrying amount of the net investment in finance leases for the year

New rental agreements amounted to R850.8 million (2022: R610.0 million), while the cost of early-settled deals was R70.0 million (2022: R62.8 million). The capital portion of bad debts written off was R26.2 million (2022: R25.4 million).

Collateral held as security and other credit enhancements relating to credit-impaired financial assets in stage 3

R'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held[1]
2023				
Business loans	496 330	(291 059)	205 271	205 271
Mortgage loans	631 829	(144 505)	487 324	487 324
	1 128 159	(435 564)	692 595	692 595
2022				
Business loans	427 756	(278 188)	149 568	149 568
Mortgage loans	473 379	(86 051)	387 328	387 328
	901 135	(364 239)	536 896	536 896

[1] *Where the fair value of the collateral is greater than the carrying amount, the fair value of the collateral has been limited to the carrying amount.*

Fair value of collateral and other credit enhancements is determined by referencing the realisable value of security held before adjusting for expected recoveries.

All the Business bank clients are accorded a risk grading. The risk grading is dependent on the client's creditworthiness and standing with the group, and is subject to ongoing assessment of the client's financial standing and the acceptability of their dealings with the group, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value, nil for unlisted shares
Pledge and cession of assets (specific and general)	Variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	100% of asset value
Vacant land	50% of professional valuation
Residential properties	60% – 80% of professional valuation
Commercial and industrial properties	55% – 70% of professional valuation
Catering, industrial and office equipment	Variable depending on asset type and depreciated value
Trucks	Variable depending on asset type and depreciated value
Earthmoving equipment	Variable depending on asset type and depreciated value
Motor vehicles	Variable depending on asset type and depreciated value
General notarial bond	Variable depending on asset type and depreciated value
Special notarial bond	Variable depending on asset type and depreciated value

Notes to the financial statements continued

Year ended 28 February 2023

8. Net loans and advances continued

Collateral held as security and other credit enhancements relating to credit-impaired financial assets in stage 3 continued

All collateral held by the bank in respect of a loan and advance can be realised in accordance with the terms of the agreement or the facility conditions applicable thereto. Cash collateral and pledged assets that can be realised in accordance with the terms of the pledge and cession or suretyship are applied in reduction of related exposures. Pledged assets, other than cash or cash equivalent collateral and tangible security articles, are appropriated and disposed of, where necessary, after legal action and in compliance with the applicable Court rules and directives.

A client in default will be advised of the default and afforded an opportunity to regularise the arrears. Failing normalisation of the account, legal action and repossession procedures will be followed and all attached assets will be disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed liquidator or trustee will dispose of all assets.

At the end of the financial year ended 28 February 2023, the exposure at default for loans in all stages where the collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R7.1 billion (2022: R5.9 billion).

9. Other receivables

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Financial receivables	6 183 829	3 125 994	2 264	1 694
Deposits	1 903	40 965	—	—
SARB settlement balance[3]	3 004 738	1 559 299	—	—
Other receivables[1][3]	1 551 257	1 047 907	2 264	1 694
Funeral plan income receivable[4]	1 625 931	477 823	—	—
Non-financial receivable	245 366	158 990	463	440
Prepayments[2]	245 366	158 990	463	440
Total other receivables	6 429 195	3 284 984	2 727	2 134
Current portion	6 405 991	3 264 991	2 727	2 134
Non-current portion	23 204	19 993	—	—
Maximum exposure to credit risk	6 429 195	3 284 984	2 727	2 134

(1) Other receivables include sundry debtors and clearing accounts.

(2) Prepayments relate to IT and business development expenses.

(3) While other receivables are also subject to the impairment requirements of IFRS 9, the impairment loss was immaterial given the short-dated maturity of the balances.

(4) The funeral plan income for the year recognised in the income statement amounted to R1.4 billion (2022: R905 million). Refer to note 2.18.7 for the accounting policy.

10. Net insurance receivable

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Opening balance	677 935	987 116	—	—
Underwriting profit after tax[1]	1 888 500	1 539 578	—	—
Additional investment	—	—	—	—
Distribution paid to the group	(1 057 064)	(1 848 759)	—	—
Net insurance receivable[2]	1 509 371	677 935	—	—
Current portion	1 509 371	677 935	—	—

(1) Refer to note 24 where a breakdown of the underwriting profit after tax is provided.

(2) 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 on the specific class of preference shares held by the group.

11. Financial assets – equity instruments at FVOCI

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	72 680	69 340	—	—
Additions	—	1 725	—	—
Fair value adjustment[2]	1 200	1 615	—	—
Total financial assets – equity instruments at FVOCI[1][2]	73 880	72 680	—	—

(1) Financial assets at FVOCI comprise unlisted equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category because these are strategic investments. The unlisted equity securities mainly relate to the group's investment in African Bank Holdings Limited. Capitec Bank is a participant in a consortium that recapitalised African Bank Holdings Limited. The other members of the consortium comprise the Public Investment Corporation and 5 other South African banks.

(2) The fair value of financial assets that are not listed or quoted in an active market is determined using valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis.

Notes to the financial statements continued

Year ended 28 February 2023

12. Interest in subsidiaries, associates and joint ventures

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Interest in subsidiaries				
Investment in unlisted subsidiaries at cost	–	–	6 018 182	6 020 425
Group loans payable[1]	–	–	(24 405)	(13 680)
Total interest in subsidiaries	–	–	5 993 777	6 006 745

Subsidiaries	Domicile	Holding	Nature of business
Capitec Bank Limited[3]	South Africa	100% (2022:100%)	Banking
Capitec Rental Finance Proprietary Limited (previously known as Mercantile Rental Finance Proprietary Limited)[2]	South Africa	100% (2022:100%)	Rental finance
Capitec Foundation Trust	South Africa	Nil (100% effective interest)	Corporate social investment
Capitec Properties Proprietary Limited[4]	South Africa	100% (2022:100%)	Property
Capitec Ins Proprietary Limited	South Africa	100% (2022:100%)	Investment holding – insurance cell captives
Capitec Insurance Holdings Proprietary Limited (previously known as K2021926983 (South Africa) Proprietary Limited)	South Africa	100% (2022:100%)	Investment holding – Insurance
Capitec Life Limited (previously known as K2021924456 (South Africa) Proprietary Limited)[2]	South Africa	100% (2022:100%)	Holder of life insurance licence
Capitec Bank Holdings Share Trust	South Africa	Nil (2022: Nil) (100% effective interest)	Share incentive trust
Capitec Bank Group Employee Empowerment Trust	South Africa	Nil (100% effective interest)	Employee empowerment trust
CB Employee Holdings Proprietary Limited[2]	South Africa	100%	Investment holding

[1] *Loans from wholly-owned subsidiaries are interest-free and repayable on demand. These balances have been eliminated on consolidation.*

[2] *Indirect holding.*

[3] *All holdings are in the ordinary and preference share capital of the subsidiaries. Preference shares were repurchased by the subsidiary during the year.*

[4] *Subsidiaries where the carrying amount of the investment is R1 000 or less.*

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Capitec Bank Limited[3]	–	–	5 726 182	5 728 425
Capitec Ins Proprietary Limited	–	–	108 000	108 000
Capitec Insurance Holdings Proprietary Limited	–	–	184 000	184 000
Total investment in unlisted subsidiaries at cost	–	–	6 018 182	6 020 425
Capitec Bank Limited				
Opening balance	–	–	5 728 425	5 709 068
Izindaba Ezinhle Employee Share Scheme (note 39.2)	–	–	–	23 831
Preference shares repurchased	–	–	(2 243)	(4 474)
Total interest in Capitec Bank Limited	–	–	5 726 182	5 728 425
Capitec Ins Proprietary Limited				
Opening balance	–	–	108 000	–
Interest acquired	–	–	–	108 000
Total interest in Capitec Ins Proprietary Limited	–	–	108 000	108 000
Capitec Insurance Holdings Proprietary Limited				
Opening balance	–	–	184 000	–
Interest acquired	–	–	–	184 000
Total interest in Capitec Insurance Holdings Proprietary Limited	–	–	184 000	184 000

[1] *Loans from wholly-owned subsidiaries are interest-free and repayable on demand. These balances have been eliminated on consolidation.*

[2] *Indirect holding.*

[3] *All holdings are in the ordinary and preference share capital of the subsidiaries. Preference shares were repurchased by the subsidiary during the year.*

[4] *Subsidiaries where the carrying amount of the investment is R1 000 or less.*

Notes to the financial statements continued

Year ended 28 February 2023

12. Interest in subsidiaries, associates and joint ventures continued

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Interest in associates				
Avafin Holdings Limited				
Opening balance	222 722	217 391	217 391	217 391
Share of profit[(1)]	63 207	24 183	—	—
Foreign currency translation reserve	46 172	(18 852)	—	—
Total interest in Avafin Holdings Limited	332 101	222 722	217 391	217 391
Praelexis Proprietary Limited				
Opening balance	22 031	22 123	25 000	25 000
Share of loss	(710)	(92)	—	—
Total interest in Praelexis Proprietary Limited	21 321	22 031	25 000	25 000
Interest in joint ventures				
Imvelo Ventures Proprietary Limited				
Opening balance	149 593	137 495	—	—
Interest acquired[(2)]	61 800	—	—	—
Share of profit	35 253	12 098	—	—
Total interest in Imvelo Ventures Proprietary Limited	246 646	149 593	—	—
Total interest in associates and joint ventures	600 068	394 346	242 391	242 391
Share of net profit of associates and joint venture	97 750	36 189	—	—

Associates/joint ventures	Domicile	Holding	Nature of business
Avafin Holdings Limited (previously Cream Finance Holdings Limited)	Cyprus	40.86% (2022: 40.86%)	Lending
Praelexis Proprietary Limited	South Africa	33.33% (2022: 33.33%)	Artificial intelligence
Imvelo Ventures Proprietary Limited	South Africa	49.00% (2022: 17.50%)	B-BBEE investment

(1) *The share of profit from 1 January 2022 to 31 December 2022 is included. These numbers are the audited numbers and due to Capitec's stringent reporting timeline, there is a timing difference of 2 months, however, their results are for a 12-month period and the changes after December 2022 are not material to the group.*

(2) *Class B ordinary shares were acquired during the year at a cost of R61.8 million.*

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Avafin Holdings Limited				
Income statement				
Revenue	1 201 279	789 085	1 201 279	789 085
Interest income	23 818	6 375	23 818	6 375
Interest expense	(4 172)	(5 027)	(4 172)	(5 027)
Depreciation and amortisation	(45 214)	(33 139)	(45 214)	(33 139)
Income tax expense	(57 953)	(22 277)	(57 953)	(22 277)
Profit from continuing operations after tax	144 645	59 107	144 645	59 107
Other comprehensive income	(3 469)	3 697	(3 469)	3 697
Total comprehensive income	141 176	62 804	141 176	62 804
Reconciliation to carrying amounts				
Non-current assets	331 303	271 854	331 303	271 854
Current assets	1 273 709	870 124	1 273 709	870 124
Cash and cash equivalents	258 241	183 879	258 241	183 879
Non-current liabilities	(215 118)	(66 327)	(215 118)	(66 327)
Non-current liabilities (excluding trade payables and provisions)	(215 118)	(66 327)	(215 118)	(66 327)
Current liabilities	(945 382)	(822 372)	(945 382)	(822 372)
Current liabilities (excluding trade payables and provisions)	(817 119)	(726 737)	(817 119)	(726 737)
Net assets at 100%	444 512	253 279	444 512	253 279
The group's share of net assets at acquisition	86 713	86 713	86 713	86 713
Difference in initial cost versus share of net assets acquired	196 360	196 360	196 360	196 360
Cost of investment in Avafin Holdings Limited	283 073	283 073	283 073	283 073
Cumulative share of profit and foreign currency translation reserve	171 230	61 851	—	—
Cumulative impairment of investment in associate	(122 202)	(122 202)	(65 682)	(65 682)
Carrying amount of investment in Avafin Holdings Limited	332 101	222 722	217 391	217 391

Notes to the financial statements continued

Year ended 28 February 2023

12. Interest in subsidiaries, associates and joint ventures continued

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Praelexis Proprietary Limited				
Income statement				
Revenue	37 865	23 730	37 865	23 730
Profit/(Loss) from continuing operations after tax	1 401	(3 009)	1 401	(3 009)
Total comprehensive income/(loss)	1 401	(3 009)	1 401	(3 009)
Reconciliation to carrying amounts				
Non-current assets	1 569	3 122	1 569	3 122
Current assets	23 340	23 414	23 340	23 414
Current liabilities	(1 928)	(1 424)	(1 928)	(1 424)
Net assets at 100%	22 981	25 112	22 981	25 112
The group's share of net assets at acquisition	11 374	11 374	11 374	11 374
Difference in initial cost versus share of net assets acquired	13 626	13 626	13 626	13 626
Cost amount of investment in Praelexis Proprietary Limited	25 000	25 000	25 000	25 000
Cumulative share of loss	(3 679)	(2 969)	—	—
Carrying amount of investment in Praelexis Proprietary Limited	21 321	22 031	25 000	25 000
Imvelo Ventures Proprietary Limited				
Income statement				
Revenue	17 579	9 529	—	—
(Loss)/Profit from continuing operations after tax	(5 371)	68 488	—	—
Total comprehensive income	(5 371)	68 488	—	—
Reconciliation to carrying amounts				
Non-current assets	320 140	246 104	—	—
Current assets	814	10 762	—	—
Non-current liabilities	(25 328)	(18 803)	—	—
Current liabilities	(1 853)	(1 433)		—
Net assets at 100%	293 773	236 630	—	—
The group's share of net assets at acquisition	82 073	29 312	—	—
Difference in initial cost versus share of net assets acquired	112 229	103 190	—	—
Cost of investment in Imvelo Ventures Proprietary Limited	194 302	132 502	—	—
Cumulative share of profit	52 344	17 091	—	—
Carrying amount of investment in Imvelo Ventures Proprietary Limited	246 646	149 593	—	—

13. Property and equipment

R'000	GROUP Land and buildings	Computer equipment	Office equipment and vehicles	Total
2023				
Opening net book value	944 798	1 378 672	698 085	3 021 555
Additions	—	428 638	505 784	934 422
Transfers	(111)	111	—	—
Disposals	—	(24 193)	(3 736)	(27 929)
Depreciation charge	(21 262)	(342 121)	(272 747)	(636 130)
Net book value at the end of the year	923 425	1 441 107	927 386	3 291 918
Cost	993 569	3 322 342	2 674 867	6 990 778
Accumulated depreciation	(70 144)	(1 881 235)	(1 747 481)	(3 698 860)
Net book value at the end of the year	923 425	1 441 107	927 386	3 291 918
Non-current portion	923 425	1 441 107	927 386	3 291 918
2022				
Opening net book value	962 172	1 256 834	727 152	2 946 158
Additions	2 834	486 328	256 390	745 552
Derecognition due to equipment destroyed in the civil unrest[(1)]	—	(43 583)	(14 369)	(57 952)
Reversal of impairment	4 124	—	—	4 124
Disposals	—	(8 035)	(5 123)	(13 158)
Depreciation charge	(24 332)	(312 872)	(265 965)	(603 169)
Net book value at the end of the year	944 798	1 378 672	698 085	3 021 555
Cost	993 686	3 060 985	2 192 342	6 247 013
Accumulated depreciation	(48 888)	(1 682 313)	(1 494 257)	(3 225 458)
Net book value at the end of the year	944 798	1 378 672	698 085	3 021 555
Non-current portion	944 798	1 378 672	698 085	3 021 555

[(1)] *Civil unrest occurred in the KwaZulu-Natal and Gauteng provinces of South Africa during the latter part of July 2021, resulting in the destruction of equipment. The group had short-term insurance cover to reduce the risks of civil unrest from Sasria SOC Limited. The destruction of equipment resulted in the derecognition of the assets as it was not probable that future economic benefits from the assets destroyed would flow to the group. A loss of R57.9 million was recognised in operating expenses in the prior year. Compensation received from Sasria SOC Limited amounted to R198.2 million and was recognised in other income in the prior year. Full details are set out in note 43 to the financial statements.*

Notes to the financial statements continued

Year ended 28 February 2023

14. Right-of-use assets

R'000	GROUP Premises
2023	
Opening balance	1 909 435
Additions	429 936
Terminations	(144 122)
Depreciation charge	(373 834)
Net book value at the end of the year	1 821 415
Cost	3 468 205
Accumulated depreciation	(1 646 790)
Net book value at the end of the year	1 821 415
Current portion	321 836
Non-current portion	1 499 579
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:	
Leases not yet commenced to which the group is committed	118 476
2022	
Opening balance	2 052 985
Additions	353 218
Terminations	(99 346)
Depreciation charge	(397 422)
Net book value at the end of the year	1 909 435
Cost	3 152 470
Accumulated depreciation	(1 243 035)
Net book value at the end of the year	1 909 435
Current portion	307 477
Non-current portion	1 513 938
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:	
Leases not yet commenced to which the group is committed	72 161

15. Intangible assets

	GROUP					
R'000	Computer software[(1)]	Internally generated intangible assets[(2)]	Core deposit intangible	Client relationships	Goodwill[(3)]	Total
2023						
Opening net book value	357 546	75 300	53 857	11 815	849 487	1 348 005
Additions	74 799	154 042	—	—	—	228 841
Disposals	(243)	—	—	—	—	(243)
Amortisation	(117 752)	(9 155)	(11 536)	(2 531)	—	(140 974)
Net book value at the end of the year	314 350	220 187	42 321	9 284	849 487	1 435 629
Cost	1 007 049	245 591	80 780	17 721	849 487	2 200 628
Accumulated amortisation	(692 699)	(25 404)	(38 459)	(8 437)	—	(764 999)
Net book value at the end of the year	314 350	220 187	42 321	9 284	849 487	1 435 629
2022						
Opening net book value	467 622	84 454	65 393	14 346	849 487	1 481 302
Additions	116 988	—	—	—	—	116 988
Disposals	(26 789)	—	—	—	—	(26 789)
Amortisation	(200 275)	(9 154)	(11 536)	(2 531)	—	(223 496)
Net book value at the end of the year	357 546	75 300	53 857	11 815	849 487	1 348 005
Cost	1 325 450	91 549	80 780	17 721	849 487	2 364 987
Accumulated amortisation	(967 904)	(16 249)	(26 923)	(5 906)	—	(1 016 982)
Net book value at the end of the year	357 546	75 300	53 857	11 815	849 487	1 348 005

(1) Computer software primarily comprises the main banking infrastructure applications, which are purchased from vendors.

(2) Internally generated intangible assets comprise SAP software and assets under construction relating to software. Refer to note 37. for capital commitments.

(3) Goodwill is allocated to the Business bank CGU and is tested annually for impairment. Refer to note 3.1.3.

Notes to the financial statements continued

Year ended 28 February 2023

16. Deferred income tax asset

R'000	GROUP Impairments, provisions and accruals	Share-based payments	Other reserves	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2023									
Balance at the beginning of the year	2 627 677	95 577	(791)	4 725	(55 459)	140 818	(18 388)	(24 749)	2 769 410
Income statement charge	(321 674)	—	—	—	5 499	(11 404)	3 939	68 057	(255 583)
Credited/(debited) directly to equity	—	(75 560)	—	—	—	—	—	—	(75 560)
Debited to equity through other comprehensive income	—	—	(1 173)	(5 395)	—	—	—	—	(6 568)
Balance at the end of the year	2 306 003	20 017	(1 964)	(670)	(49 960)	129 414	(14 449)	43 308	2 431 699
Estimated to be recovered within 1 year									1 321 210
Estimated to be recovered after 1 year									1 110 489
Balance at the end of the year									2 431 699
2022									
Balance at the beginning of the year	2 053 309	44 211	(311)	11 273	(54 517)	117 108	(22 327)	(4 110)	2 144 636
Income statement charge	614 854	—	—	—	(3 042)	29 277	3 939	(20 639)	624 389
Debited directly to equity	—	51 366	—	—	—	—	—	—	51 366
Debited to equity through other comprehensive income	—	—	(480)	(6 548)	—	—	—	—	(7 028)
Tax rate change[1]	(40 486)	—	—	—	2 100	(5 567)	—	—	(43 953)
Balance at the end of the year	2 627 677	95 577	(791)	4 725	(55 459)	140 818	(18 388)	(24 749)	2 769 410
Estimated to be recovered within 1 year									1 538 708
Estimated to be recovered after 1 year									1 230 702
Balance at the end of the year									2 769 410

[1] *Deferred income taxes are calculated on all temporary differences under the liability method. The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable. During the budget speech presented on 23 February 2022, the Finance Minister announced that the South African corporate tax rate would be reduced from 28% to 27%, effective for tax assessment years ending on or after 31 March 2023. This change was substantively enacted at the balance sheet date and has therefore been reflected in the measurement of the group's deferred tax balances at 28 February 2023. In the prior year, the tax rate on temporary differences that would not realise during the 2023 financial year was 27%. The tax rate applied to the remainder of the temporary differences was 28%. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.*

17. Deposits and wholesale funding

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Deposits				
By maturity				
Within 1 month	99 919 242	93 089 147	—	—
1 to 3 months	5 855 664	5 282 090	—	—
3 months to 1 year	17 650 720	16 063 299	—	—
1 to 2 years	8 482 488	7 690 719	—	—
2 to 5 years	12 151 295	10 273 122	—	—
Total deposits	144 059 409	132 398 377	—	—
Wholesale funding				
By maturity				
Within 1 month	4 595	64 134	—	—
1 to 3 months	63 698	23 115	—	—
3 months to 1 year	52 804	155 950	—	—
1 to 2 years	1 372 553	144 626	—	—
2 to 5 years	945 144	1 624 683	—	—
More than 5 years	—	47 685	—	—
Total wholesale funding	2 438 794	2 060 193	—	—
By nature				
Deposits				
Call accounts	85 909 786	79 634 626	—	—
Current accounts	10 342 712	9 532 075	—	—
Term and notice deposits	3 020 155	3 015 519	—	—
Foreign currency deposits	1 274 152	1 303 148	—	—
Fixed deposits	43 512 604	38 913 009	—	—
Total deposits	144 059 409	132 398 377	—	—
Wholesale funding				
Listed senior bonds[1]	2 008 902	1 254 438	—	—
Unlisted negotiable instruments	42 488	122 807	—	—
Other wholesale funding	387 404	682 948	—	—
Total wholesale funding	2 438 794	2 060 193	—	—
Total deposits and wholesale funding	146 498 203	134 458 570	—	—

[1] *Comprises notes listed in terms of Capitec Bank's domestic medium-term note (DMTN) programme registered on the JSE's Debt Board.*

Notes to the financial statements continued

Year ended 28 February 2023

17. Deposits and wholesale funding continued

Description	Nominal amount	Issue date	Term	Rate
2023				
Listed senior bonds				
Senior debt – listed bonds – floating rate[1]	**R500 million[2]**	**30 April 2019**	**5 years**	**3-month JIBAR plus 1.50%**
Senior debt – listed bonds – floating rate[1]	**R750 million**	**2 November 2021**	**3 years**	**3-month JIBAR plus 1.20%**
Senior debt – listed bonds – floating rate[1]	**R750 million**	**21 November 2022**	**3 years**	**3-month JIBAR plus 1.30%**
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed	**R41 million**	**10 April 2018**	**5 years**	**5-year mid-swap plus 2.00%**
Other wholesale funding				
Bilateral loan – fixed rate	**R90 million**	**1 December 2004**	**20 years**	**Fixed rate of 11% nominal annual compounded monthly**
Call deposit – floating rate	**R28 million**	**26 January 2018**	**Call**	**Repo rate**
COVID-19 Loan Guarantee Scheme	**R620 million[3]**	**Various between 2020 – 2021**	**5 years**	**Repo rate**
2022				
Listed senior bonds				
Senior debt – listed bonds – floating rate[1]	R500 million[2]	30 April 2019	5 years	3-month JIBAR plus 1.50%
Senior debt – listed bonds – floating rate[1]	R750 million	2 November 2021	3 years	3-month JIBAR plus 1.20%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed	R46 million	8 June 2017	5 years	5-year mid-swap plus 2.40%
Negotiable certificate of deposit – fixed	R33 million	22 January 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed	R41 million	10 April 2018	5 years	5-year mid-swap plus 2.00%
Other wholesale funding				
Bilateral loan – fixed rate	R90 million	1 December 2004	20 years	Fixed rate of 11% nominal annual compounded monthly
Call deposit – floating rate	R28 million	26 January 2018	Call	Repo rate
COVID-19 Loan Guarantee Scheme	R620 million	Various between 2020 – 2021	5 years	Repo rate

[1] Comprises notes listed in terms of Capitec Bank's DMTN programme registered on the JSE's Debt board.

[2] Wholesale funding issued at variable rates is hedged through interest rate swap agreements as set out in note 42. The nominal value of hedged funding totalled R0.5 billion (2022: R0.5 billion) and consists of listed senior bonds: R0.5 billion (2022: R0.5 billion).

[3] Nominal amount at the grant date which will amortise over a period of 5 years.

R'000	Senior listed bonds	Total
2023		
Reconciliation of movements in cash flows arising from financing activities		
Opening balance as at 1 March 2022	**1 254 438**	**1 254 438**
Initiation fees	**(266)**	**(266)**
Issue of institutional bonds and other funding	**750 000**	**750 000**
Redemption of institutional bonds and other funding	**—**	**—**
Interest expense accrued	**111 252**	**111 252**
Swap interest accrued	**(10 215)**	**(10 215)**
Interest paid	**(96 307)**	**(96 307)**
Balance as at 28 February 2023	**2 008 902**	**2 008 902**
COVID-19 Loan Guarantee Scheme		**332 760**
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)		**97 132**
Total wholesale funding		**2 438 794**
2022		
Reconciliation of movements in cash flows arising from financing activities		
Opening balance as at 1 March 2021	1 519 970	1 519 970
Initiation fees	(739)	(739)
Issue of institutional bonds and other funding	750 000	750 000
Redemption of institutional bonds and other funding	(1 000 000)	(1 000 000)
Interest expense accrued	76 823	76 823
Swap interest accrued	(22 819)	(22 819)
Interest paid	(68 797)	(68 797)
Balance as at 28 February 2022	1 254 438	1 254 438
COVID-19 Loan Guarantee Scheme		568 882
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)		236 873
Total wholesale funding		2 060 193

18. Other liabilities

	GROUP		COMPANY	
R'000	2023	2022	2023	2022
Trade payables	**2 315 762**	2 209 917	**214**	645
Dividends payable	**10 115**	8 263	**12 048**	8 263
Accruals (including bonuses)	**1 117 774**	2 166 451	**446**	1 617
Share appreciation rights (SARs) (per note 41) and restricted share plan (per note 39.4)	**309 590**	361 228	**—**	—
ECL for undrawn loan commitments[1]	**120 878**	—	**—**	—
Total other liabilities	**3 874 119**	4 745 859	**12 708**	10 525
Current portion	**3 453 966**	4 355 841	**12 708**	10 525
Non-current portion	**420 153**	390 018	**—**	—

[1] For loan commitments, detailed in note 8, the loss allowance is recognised as a provision to the extent that the ECLs exceed the gross carrying amount of the loans at a client level.

Notes to the financial statements continued

Year ended 28 February 2023

19. Lease liabilities

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Lease liabilities	2 305 062	2 424 694	–	–
Total lease liabilities	2 305 062	2 424 694	–	–
Reconciliation of lease liabilities				
Balance at the beginning of the year	2 424 694	2 500 977	–	–
Additions	427 286	363 646	–	–
Terminations and lease modifications	(175 412)	(119 812)	–	–
Interest	200 894	214 240	–	–
Lease payments	(572 400)	(534 357)	–	–
Balance at the end of the year	2 305 062	2 424 694	–	–
Maturity analysis – contractual undiscounted cash flows				
Less than 1 year	558 860	526 793	–	–
1 to 5 years	1 844 763	1 853 852	–	–
More than 5 years	857 985	962 616	–	–
Total undiscounted lease liabilities at year-end	3 261 608	3 343 261	–	–
Lease liabilities included in the statement of financial position at year-end				
Current portion	271 132	303 560	–	–
Non-current portion	2 033 929	2 121 134	–	–
Amounts recognised in profit or loss				
Interest on lease liability	200 894	214 240	–	–
Expense relating to short-term leases	933	18	–	–
Amounts recognised in the statement of cash flows				
Total cash flow for leases	572 400	534 357	–	–
– Portion included in operating activities	202 097	214 240	–	–
– Portion included in financing activities	370 303	320 117	–	–

Premises leases

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities. The leases for its branches typically run for a period of 5 years. The majority of the leases include an option to renew the lease for an additional period of the same duration after the end of the agreement term. The group includes extension options when determining the lease term as branches are a strategic part of the business.

Other leases

The leases are short-term and/or leases of low-value items. The group has elected not to recognise right-of-use assets and lease liabilities for these leases.

20. Post-retirement medical benefits

Capitec Bank Limited (Business bank division) operates a post-retirement medical scheme. The scheme relates to retired employees of Mercantile Bank Limited. Independent actuaries value this scheme annually. It is the actuary's opinion that the plan is in a sound financial position. The scheme was last valued on 28 February 2023. The amounts recognised in the statement of financial position as part of employee benefit liabilities are as follows (refer to note 21):

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Present value of total service liabilities	11 235	14 908	–	–
Liability in the statement of financial position	11 235	14 908	–	–
The amounts recognised in the statements of other comprehensive income are as follows:				
Net interest cost	1 366	1 232	–	–
Employee cost	(1 813)	(1 848)	–	–
Current service cost	7	6	–	
Employer benefits payments	(1 820)	(1 854)	–	
Total included in other comprehensive income	(447)	(616)	–	–
The amounts recognised in the statements of other comprehensive income are as follows:				
Remeasurement of defined benefit obligation	(3 226)	(679)	–	–
Total included in other comprehensive income	(3 226)	(679)	–	–
Reconciliation of the movement in the present value of total service liabilities:				
Balance at the beginning of the year	14 908	16 203	–	–
Current service cost	7	6	–	–
Interest costs	1 366	1 232	–	–
Remeasurement of defined benefit obligation	(3 226)	(679)	–	–
Employer benefits payments	(1 820)	(1 854)	–	–
Balance at the end of the year	11 235	14 908	–	–
The principal actuarial assumptions used were as follows:				
Discount rate (%)	10.2	9.8	–	–
Rate of medical inflation (%)	6.6	7.5	–	–
Salary inflation (%)	6.1	7.0	–	–

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in the amount of R0.7 million (2022: R1 million) or a decrease of R0.6 million (2022: R0.9 million).

Notes to the financial statements continued

Year ended 28 February 2023

21. Employee benefit liabilities

R'000	GROUP Performance incentive scheme[1]	Post-retirement medical benefits	Total
2023			
Balance at the beginning of the year	197 236	14 908	212 144
Additions	4 394	1 373	5 767
Used during the year	(198 243)	(5 046)	(203 289)
Balance at the end of the year	3 387	11 235	14 622
2022			
Balance at the beginning of the year	123 223	16 203	139 426
Additions	194 452	1 238	195 690
Used during the year	(120 439)	(2 533)	(122 972)
Balance at the end of the year	197 236	14 908	212 144

(1) Senior management qualifies for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings and, in order to foster a long-term approach by management, the bonus is paid out over a 3-year period. The bonuses to be paid in 2024 financial year are included in accruals. The bonuses that will be paid out in 2025 and 2026 form part of the RSP which is detailed in notes 39.4 and 39.5.

R'000	2023	2022
Current portion	—	—
Non-current portion	14 622	212 144

22. Share capital and premium

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Authorised				
Ordinary shares[1]				
500 000 000 shares of R0.01 each	5 000	5 000	5 000	5 000
Non-redeemable, non-cumulative and non-participating preference shares				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (conversion)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (write-off)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000

(1) At the AGM held on 27 May 2022, shareholders authorised that 5 804 992 shares equal to 5% of the issued ordinary shares of the company be placed under the control of the directors until the next AGM.

(2) At the AGM held on 27 May 2022, shareholders authorised that loss-absorbent convertible capital securities to a maximum aggregate issue price not exceeding R1.5 billion, but subject to a conversion into ordinary shares not exceeding 7 500 000 ordinary shares (over and above the authority reflected in (1)), be placed under the control of the directors until the next AGM.

	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Number of shares issued[3]				
Number of shares in issue per the shareholders' register	116 099 843	116 099 843	116 099 843	116 099 843
Number of shares in issue for accounting purposes[6]	115 626 991	115 626 991	115 626 991	115 626 991
Treasury shares	(313 979)	—	—	—
Issued share capital – R'000				
Shares of R0.01	1 156	1 156	1 156	1 156
Share premium	5 647 864	5 647 864	5 647 864	5 647 864
Treasury shares	(242 912)	—	—	—
Ordinary share capital and premium	5 406 108	5 649 020	5 649 020	5 649 020
542 013 (2022: 566 864) shares of R0.01 each at par	5	6	5	6
Share premium	48 919	51 161	48 919	51 161
Preference share capital and premium – non-redeemable, non-cumulative, non-participating[4]	48 924	51 167	48 924	51 167
Total issued share capital and premium[4][5]	5 455 032	5 700 187	5 697 944	5 700 187
Reconciliation – number of treasury shares				
Opening balance	—	—	—	—
Repurchased shares	424 566	—	—	—
Shares issued to option holders	(110 587)	—	—	—
Closing balance	313 979	—	—	—

(3) All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 24 851 (2022: 49 555) preference shares with an original value of R2.2 million (par and premium) (2022: R4.5 million) were repurchased and cancelled during the year. The preference shares have been repurchased over a number of years due to the Basel 3 phase-out of qualifying preference share capital. From 1 January 2022, none of the preference share capital qualifies for regulatory purposes in accordance with the Basel 3 phase-out timeline. The average price paid was R102.31 (2022: R103.90) per share.

(4) The preference shares carry a coupon rate of 83.33% (2022: 83.33%) of the prime rate on a face value of R100 per share. At year-end, 81.11% (2022: 80.24%) of these shares had been repurchased. The total amount paid for the preference shares repurchased during the year was R2.5 million (2022: R5.2 million).

(5) Refer to note 39 for detail regarding the acquisition of shares to settle share options. During the year, a loss of R78.5 million (R56.5 million after tax) (2022: R25.5 million (R18.3 million after tax)) was realised on settlement of share options as reflected in the statement of changes in equity.

(6) The 472 852 shares that were issued in terms of the Izindaba Ezinhle Employee Share Scheme during the year ended February 2022 are deemed unissued for accounting purposes at a group level. At a company level, to the extent that cash was received for 50% of the subscription price related to the 472 852 shares issued, these shares were recorded separately in equity. The additional share capital and share premium will be recognised for accounting purposes on expiry of the 5-year trade restriction. Full details are set out in note 39.2 to the annual financial statements. These shares are not included in treasury shares as they are deemed to be unissued for accounting purpose.

Notes to the financial statements continued

Year ended 28 February 2023

23. Reserves

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Cash flow hedge reserve				
Balance at the beginning of the year	(12 405)	(29 244)	—	—
Amount recognised in other comprehensive income during the year	9 129	568	—	—
Amount reclassified from other comprehensive income to profit or loss for the year	10 215	22 819	—	—
	6 939	(5 857)	—	—
Deferred tax recognised in other comprehensive income during the year	(5 395)	(6 548)	—	—
Balance at the end of the year[1]	1 544	(12 405)	—	—
Other reserves[2]				
Balance at the beginning of the year	(28 625)	(35 649)	—	—
Amount recognised in other comprehensive income during the year	4 427	1 713	—	—
Employee benefits reserve	3 226	679	—	—
Other reserves	1 201	1 034	—	—
Amount reclassified from other comprehensive income to profit or loss for the year (other reserves)	—	5 791	—	—
	(24 198)	(28 145)	—	—
Deferred tax recognised in other comprehensive income during the year	(1 173)	(480)	—	—
Balance at the end of the year	(25 371)	(28 625)	—	—
Foreign currency translation reserve				
Balance at the beginning of the year	31 438	50 291	—	—
Amount recognised in other comprehensive income during the year	46 172	(18 853)	—	—
Balance at the end of the year[3]	77 610	31 438	—	—
Share option reserve[4]				
Balance at the beginning of the year	515 809	—	23 831	—
Amount recognised directly in equity	—	515 809	—	23 831
Balance at the end of the year	515 809	515 809	23 831	23 831

(1) *The cash flow hedge reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items are detailed in note 17 and comprise variable-rate bonds. Refer to note 42 for additional disclosure relating to the hedging instruments.*

(2) *The other reserves include the employee benefit reserve and a reserve relating to an equity investment.*

(3) *The foreign currency translation reserve relates to the gain or loss on translation of the group's investment in a foreign associate. This investment is denominated in euro and amounted to EUR17.0 million (2022: EUR12.9 million) and R332.1 million (2022: R223.0 million).*

(4) *The details of the Izindaba Ezinhle Employee Share Scheme and co-investment plan and share appreciation rights scheme are set out in note 39.2 to the financial statements.*

24. Net lending, investment, insurance, transaction and commission income

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Interest income				
Loans and advances	15 320 222	12 799 976	—	—
Loan origination fees	478 982	447 488	—	—
Money market funds and term deposit investments	463 815	498 520	—	—
Bank balances	1 280	3 108	437	479
Resale agreements	328 846	422 437	—	—
Interest-bearing instruments[1]	4 190 203	3 282 786	—	—
Total interest income calculated using the effective interest rate	20 783 348	17 454 315	437	479
Financial assets at FVTPL	415 915	—	—	—
Total interest income per the income statement	21 199 263	17 454 315	437	479
Loan fee income				
Monthly service fee	1 087 787	968 856	—	—
Net insurance income				
Premium income received	3 336 847	3 077 895	—	—
Reinsurance premium paid[2]	—	(128 846)	—	—
Net premium written	3 336 847	2 949 049	—	—
Claims paid – gross	(853 429)	(945 928)	—	—
Claims paid – reinsurance recoveries[2]	5 947	162 042	—	—
IBNR release/(charge)[3]	37 325	(90 679)	—	—
Interest received	71 976	64 500	—	—
Underwriting profit	2 598 666	2 138 984	—	—
Tax	(710 166)	(599 406)	—	—
Underwriting profit after tax	1 888 500	1 539 578	—	—
Total lending, investment and insurance income	24 175 550	19 962 749	437	479
Interest expense				
Call and current accounts	(3 591 894)	(1 943 338)	—	—
Notice, term, foreign and fixed deposits	(3 046 488)	(2 558 252)	—	—
Listed senior bonds	(111 614)	(76 823)	—	—
Unlisted negotiable instruments	(7 788)	(11 482)	—	—
Interest paid (IFRS 16 *Leases*)	(200 894)	(214 240)	—	—
Other	(34 013)	(33 763)	—	—
Total interest expense	(6 992 691)	(4 837 898)	—	—
Loan fee expense[4]	(9 094)	(18 247)	—	—
Total lending, investment and insurance expense	(7 001 785)	(4 856 145)	—	—
Net lending, investment and insurance income	17 173 765	15 106 604	437	479

(1) *Interest-bearing instruments include treasury bills and government bonds with maturities greater than 3 months. Included in this amount is interest on SARB settlement balances amounting to R86.7 million (2022: R28.7 million).*

(2) *Recoveries received relate to the period for which the active insurance book was covered for death risk by a reinsurance agreement:*
– Death risk cover : 1 August 2020 to 30 April 2021.

(3) *An IBNR provision is raised for claims IBNR based on historical experience. The cell captive determines the IBNR by applying a percentage to premiums written during the period, in line with solvency assessment and management regulations.*

(4) *Credit life insurance cost on the first-party cell captive for loans issued prior to May 2016.*

Notes to the financial statements continued

Year ended 28 February 2023

24. Net lending, investment, insurance, transaction and commission income continued

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Transaction fee and commission income[1]				
Branch, cash and self-service transactions	6 734 198	5 675 418	–	–
Digital transactions	2 250 642	1 417 853	–	–
Monthly fees, debit orders and other transactions	3 809 489	4 298 265	–	–
POS transactions	2 098 952	1 679 964	–	–
Commission income	1 668 468	1 461 534	–	–
Total transaction fee and commission income	**16 561 749**	**14 533 034**	**–**	**–**
Transaction fee and commission expense[2]				
Branch, cash and self-service transactions	(2 859 518)	(2 438 938)	–	–
Digital transactions	(315 073)	(253 210)	–	–
Monthly fees, debit orders and other transactions	(1 201 469)	(820 603)	–	–
POS transactions	(673 824)	(436 024)	–	–
Commission expense	(50 754)	(69 792)	–	–
Total transaction fee and commission expense	**(5 100 638)**	**(4 018 567)**	**–**	**–**
Net transaction and commission income	**11 461 111**	**10 514 467**	**–**	**–**

[1] Transaction fee income has been disaggregated to show commission income separately. This resulted in a reclassification of R754 million from digital transactions, R85 million from monthly fees, debit orders and other transactions and R621 million from POS transactions. The total transaction fee and commission income has remained unchanged.

[2] Transaction fee expense has been disaggregated to show more granular information. The 2022 figures have been amended so that they are consistent with the more granular disaggregation.

25. Dividend income

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Ordinary dividends	–	–	5 479 498	3 751 450
Preference dividends	–	–	4 185	3 207
Dividend income	**–**	**–**	**5 483 683**	**3 754 657**

26. Credit impairments

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Bad debts written off[1]	6 627 491	6 185 503	–	–
Movement in provision for credit impairments[2]	409 348	(1 859 526)	–	–
Gross credit impairment charge	7 036 839	4 325 977	–	–
Bad debts recovered[3]	(707 454)	(818 223)	–	–
Net credit impairment charge	**6 329 385**	**3 507 754**	**–**	**–**

[1] This comprises those elements of the movement in gross loans and advances pertaining to write-offs and modifications as disclosed in note 8.

[2] This comprises all elements in the movement in provision for ECL as disclosed in note 8 other than for the ECL raised directly against interest received for loans in stage 3 where interest is recognised on the net carrying amount – R1 795 million (2022: R1 620 million), and also includes the ECL raised directly in other liabilities for undrawn loan commitments where the ECL exceeds the gross carrying amount of the loans at a client level of R120.9 million (2022: Rnil). As such, it includes new ECL raised as well as ECL released on loans settled during the year and loans that were written off.

[3] Bad debts recovered for the current year include R305 million (2022: R404 million) in recoveries on loans written off under the IFRS 9 write-off policy since 1 March 2018.

27. Operating expenses

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
The following items are included in operating profit before tax:				
Loss on disposal of property and equipment	6 828	2 348	–	–
Loss on derecognition of property and equipment due to the civil unrest	–	57 952	–	–
Loss on disposal of intangible assets	243	26 789	–	–
Depreciation on property and equipment	636 130	603 169	–	–
Depreciation charge on right-of-use assets – premises	373 834	397 422	–	–
Amortisation of intangible assets	140 974	223 496	–	–
Additional operating expenses due to the civil unrest	–	9 041	–	–
Advertising and marketing expenses	270 669	231 449	2 905	3 407
Bank charges and cash handling fees	345 061	444 245	3	3
Consumables	358 039	335 587	–	–
Communication expenses	181 193	215 683	–	–
Loss on cash due to the civil unrest	–	39 702	–	–
Security and cash-in-transit fees	557 193	549 201	–	–
IT expenses	1 045 435	955 228	–	–
Auditors' remuneration				
Audit fees – current year[1]	38 628	30 505	314	277
Audit fees – prior year[1]	2 818	2 109	–	–
Other services[2]	6 692	3 845	–	983
Total auditors' remuneration	**48 138**	**36 459**	**314**	**1 260**
Employee costs				
Salaries and bonus costs[3]	5 912 383	6 563 989	–	–
Equity-settled share-based payment (per notes 39.1, 39.3 and 39.4)	165 228	54 272	–	–
Cash-settled share-based payment (per note 39.4)[4]	70 827	–	–	–
Cash-settled SARs (per note 39.1)	25 912	248 860	–	–
Equity-settled Izindaba Ezinhle share-based payment (per note 39.2)	–	515 809	–	–
Training cost	76 259	56 400	–	–
Training refund	(22 675)	(21 437)	–	–
Total employee costs	**6 227 934**	**7 417 893**	**–**	**–**

[1] Includes disbursements and work required by regulation.

[2] 2022 includes R1 million in fees related to a Reporting accountant's report included in the circular for the Izindaba Ezinhle Employee Share Scheme.

[3] Social security cost of R172 million was aggregated within the Salaries and bonus costs line as it is more representative of the amounts paid. The total employee cost for the prior year remained unchanged.

[4] The share-based payment expense was disaggregated in the current year to disclose the cash-settled share-based payment expense separately.

Notes to the financial statements continued

Year ended 28 February 2023

28. Income tax expense

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Current tax	2 236 228	2 988 160	9 195	22
Current year	2 129 342	2 944 625	9 082	—
Adjustment for prior years	106 886	43 535	113	22
Deferred tax	255 583	(580 436)	—	—
Current year	360 383	(566 360)	—	—
Adjustment for prior years	(104 800)	(58 029)	—	—
Tax rate change	—	43 953	—	—
Income tax expense	2 491 811	2 407 724	9 195	22
Effective tax rate (%)	20	22	—	—
The tax on the profit before tax differs from the theoretical amount that would arise using the basic normal company tax rate as follows:				
Operating profit before tax	12 199 081	10 934 746	5 483 672	3 753 410
Tax calculated at a tax rate of 28%	3 415 743	3 061 729	1 535 428	1 050 955
Adjustments for prior years	2 086	(14 494)	113	22
Income not subject to tax[(1)]	(966 384)	(682 090)	(1 535 514)	(1 050 955)
Expenses not deductible for tax purposes	23 879	22 811	9 084	—
Allowances not in income statement[(2)]	(25 626)	(24 079)	84	—
Movement in unutilised tax losses	(121)	(106)	—	—
Tax rate change in future value of deferred tax asset	47 691	43 953	—	—
Statutory rate differential between trust and company	(5 457)	—	—	—
Income tax expense	2 491 811	2 407 724	9 195	22

(1) *This relates to exempt income received from both the credit life insurance and funeral insurance cell captive arrangements for the group and the dividend from Capitec Bank Limited for the company, and share of profit of associates and joint ventures.*

(2) *The adjustment regarding allowances not in the income statement relates to learnership agreements as per section 12H of the Income Tax Act.*

29. Earnings per share attributable to ordinary shareholders

R'000	GROUP 2023	GROUP 2022
Net profit after tax	9 707 270	8 527 022
Preference dividend	(4 185)	(3 207)
Discount on repurchase of preference shares	(297)	(709)
Net profit after tax attributable to ordinary shareholders	9 702 788	8 523 106
Weighted average number of ordinary shares in issue ('000)	115 627	115 627
Adjustment for treasury shares	(318)	—
Weighted average number of ordinary shares in issue ('000)	115 309	115 627
Adjustment for:		
Exercise of share options[(3)]	308	173
Weighted average number of ordinary shares for diluted earnings per share ('000)	115 617	115 800
Basic earnings per share (cents)[(1)]	8 415	7 371
Diluted earnings per share (cents)[(2)]	8 392	7 360

(1) *Basic earnings per share is calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year.*

(2) *To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity shareholders is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options as detailed in the notes. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.*

(3) *For the purpose of calculating the impact on diluted earnings and diluted Headline earnings per share (HEPS), the shares issued in terms of the Izindaba Ezinhle Employee Share Scheme are accounted for as options for which the Treasury stock method provided for in IAS 33 Earnings per share is applied.*

30. Headline earnings per share attributable to ordinary shareholders

R'000	GROUP 2023	GROUP 2022
Net profit attributable to ordinary shareholders	9 702 788	8 523 106
Non-headline items:		
Derecognition of equipment due to the civil unrest	—	41 725
Taxable loss	—	57 952
Income tax	—	(16 227)
Sasria SOC Limited insurance recoveries on property and equipment related to the civil	—	(142 770)
Taxable profit	—	(198 292)
Income tax	—	55 522
Loss/(Profit) on disposal of property and equipment	5 816	(1 096)
Taxable loss	3 554	12 493
Income tax	(1 012)	(3 444)
Non-tax deductible loss/non-taxable (profit)	3 274	(10 145)
Loss on disposal of intangible assets	177	19 288
Taxable loss	243	26 789
Income tax	(66)	(7 501)
Headline earnings	9 708 781	8 440 253
Basic headline earnings per share (cents)	8 420	7 300
Diluted headline earnings per share (cents)	8 397	7 289

Notes to the financial statements continued

Year ended 28 February 2023

31. Dividends declared

The company declared the following dividends for the current and previous financial years:

R'000	Dividends per share (cents)	R'000	Declared	Last day of trade	Date paid
2023					
Ordinary dividend					
Interim	**1 400**	**1 625 398**	**28 Sep 2022**	**18 Oct 2022**	**24 Oct 2022**
Final	**2 800**	**3 250 796**	**18 Apr 2023**	**9 May 2023**	**15 May 2023**
Preference dividend					
Interim	**343.08**	**1 922**	**31 Aug 2022**	**20 Sep 2022**	**26 Sep 2022**
Final	**417.45**	**2 263**	**28 Feb 2023**	**14 Mar 2023**	**15 Mar 2023**
2022					
Ordinary dividend					
Interim	1 200	1 387 524	29 Sep 2021	19 Oct 2021	25 Oct 2021
Final	2 440	2 832 836	11 Apr 2022	3 May 2022	9 May 2022
Special dividend	1 500	1 741 498	11 Apr 2022	3 May 2022	9 May 2022
Preference dividend					
Interim	294.05	1 524	31 Aug 2021	14 Sep 2021	20 Sep 2021
Final	296.91	1 683	28 Feb 2022	15 Mar 2022	22 Mar 2022

32. Segment information

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the CODM in order to allocate resources to the segments and to assess their performance. The group EXCO, headed by the CEO, has been identified as the CODM, which is responsible for assessing the performance of and allocating resources to the segments.

The CODM identified 3 operating segments within the South African economic environment – Retail bank, Business bank and the Insurance business. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on the operating results of the cell captives as a measure of profitability. The insurance products are conventional long-term insurance products written on insurance licences which are not controlled by the group. Due to the nature of the insurance products being conventional long-term insurance products, they are not further analysed by class. The group acquired an insurance licence for life products during the current year but is not yet utilising the licence.

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

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

- Transactional banking services
- Loan products that are granted to Retail bank clients. There are 3 different loan products granted, namely term loans, credit cards and access facilities
- Flexible, fixed and tax-free savings
- Value-added services including enabling clients to purchase prepaid mobile network services, electricity, national lottery tickets and vouchers and the ability to pay bills on the banking application
- Capitec Connect, a mobile virtual network operator using the mobile network infrastructure of Cell C, offering its own products and services.

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
- Call and notice deposits
- Treasury products that comprise foreign exchange spot trades and foreign exchange forward contracts.

Insurance

The cell captive arrangements enable the group to provide long-term insurance products to Retail bank clients. The group participates in the operating results of the cells in the form of an attribution of profit.

The following long-term insurance products are provided to Retail bank clients:

- Credit insurance, underwritten by Guardrisk Life Limited, is a policy that provides cover for the settlement of debt in the event of death, permanent disability, temporary disability or retrenchment
- The Capitec funeral plan, underwritten by Centriq Life Insurance Company Limited, is a policy that provides cover for funeral costs.

Capitec Ins Proprietary Limited is the shareholder of the cells and participates in the operating results.

The revenue from external parties and all other items of income, expenses, profits and losses reported in the segment report are measured in a manner consistent with that in the income statement. The fees from external clients for each major group of products and services are disclosed in note 24.

Notes to the financial statements continued

Year ended 28 February 2023

32. Segment information continued

	GROUP							
	2023				2022			
R'000	Retail bank	Business bank	Insurance	Total	Retail bank	Business bank	Insurance	Total
Lending, investment and insurance income	20 905 074	1 823 613	1 895 548	24 175 550	17 526 271	1 188 697	1 539 578	19 962 749
Interest income on lending calculated using the effective interest rate[3]	14 382 222	1 416 980	–	15 799 202	12 320 412	927 052	–	13 247 464
Interest income on investments calculated using the effective interest rate[1][2][3]	5 030 866	401 965	–	4 984 146	4 246 811	251 837	–	4 206 851
Interest income on financial assets at FVTPL	408 867	–	7 048	415 915	–	–	–	–
Loan fee income	1 083 119	4 668	–	1 087 787	959 048	9 808	–	968 856
Net insurance income	–	–	1 888 500	1 888 500	–	–	1 539 578	1 539 578
Lending and investment expenses	(6 630 155)	(820 315)	–	(7 001 785)	(4 641 959)	(505 983)	–	(4 856 145)
Interest expense[1][2]	(6 620 671)	(820 705)	–	(6 992 691)	(4 623 796)	(505 899)	–	(4 837 898)
Loan fee expense	(9 484)	390	–	(9 094)	(18 163)	(84)	–	(18 247)
Net lending, investment and insurance income	14 274 919	1 003 298	1 895 548	17 173 765	12 884 312	682 714	1 539 578	15 106 604
Transaction fee and commission income[3]	15 235 116	1 442 150	–	16 561 749	13 188 078	1 344 955	–	14 533 033
Branch, cash and self-service transactions	6 722 812	11 386	–	6 734 198	5 664 108	11 310	–	5 675 418
Digital transactions	2 183 933	66 709	–	2 250 642	1 377 493	40 360	–	1 417 853
Monthly fees, debit orders and other transactions[1]	3 388 093	481 498	–	3 809 489	3 832 871	465 393	–	4 298 264
POS transactions[1]	2 005 275	149 092	–	2 098 952	1 548 983	130 981	–	1 679 964
Commission income	935 003	733 465	–	1 668 468	764 623	696 911	–	1 461 534
Transaction fee and commission expense[3]	(4 508 724)	(647 329)	–	(5 100 638)	(3 402 608)	(615 959)	–	(4 018 567)
Branch, cash and self-service transactions	(2 859 030)	(488)	–	(2 859 518)	(2 438 701)	(237)	–	(2 438 938)
Digital transactions	(286 284)	(28 789)	–	(315 073)	(242 884)	(10 326)	–	(253 210)
Monthly fees, debit orders and other transactions	(936 109)	(265 360)	–	(1 201 469)	(505 993)	(314 610)	–	(820 603)
POS transactions[1]	(376 547)	(352 692)	–	(673 824)	(145 238)	(290 786)	–	(436 024)
Commission expense	(50 754)	–	–	(50 754)	(69 792)	–	–	(69 792)
Net transaction and commission income	10 726 392	794 821	–	11 461 111	9 785 470	728 996	–	10 514 466
Foreign currency income	–	494 778	–	494 778	–	497 605	–	497 605
Foreign currency expense	–	(332 348)	–	(332 348)	–	(353 212)	–	(353 212)
Net foreign currency income	–	162 430	–	162 430	–	144 393	–	144 393
Funeral plan income	–	–	1 430 912	1 430 912	–	–	905 847	905 847
Other income	50 072	29 128	–	79 200	265 184	24 840	–	290 024
Credit impairments	(6 121 716)	(207 669)	–	(6 329 385)	(3 331 536)	(176 218)	–	(3 507 754)
Net income	18 929 667	1 782 008	3 326 460	23 978 033	19 603 430	1 404 725	2 445 425	23 453 580
Operating expenses[1][3]	(3 257 583)	(245 252)	(9 662)	(3 452 395)	(2 763 271)	(194 544)	–	(2 957 815)
IT expenses[3]	(968 282)	(71 470)	(5 683)	(1 045 435)	(859 548)	(95 680)	–	(955 228)
Employee costs[3]	(5 357 534)	(851 148)	(19 252)	(6 227 934)	(6 635 139)	(782 754)	–	(7 417 893)
Depreciation	(938 816)	(71 148)	–	(1 009 964)	(927 715)	(72 876)	–	(1 000 591)
Amortisation	(113 716)	(13 128)	(63)	(126 907)	(180 414)	(29 015)	–	(209 429)
Amortisation of intangible assets – core deposits and client relationships[1]	–	–	–	(14 067)	–	–	–	(14 067)
Share of net profit of associates and joint ventures	97 750	–	–	97 750	36 189	–	–	36 189
Operating profit before tax[1]	8 391 486	529 862	3 291 800	12 199 081	8 273 532	229 856	2 445 425	10 934 746
Income tax expense	(2 362 038)	(140 561)	6 990	(2 495 609)	(2 356 303)	(55 360)	–	(2 411 663)
Tax on amortisation of intangible assets[1]	–	–	–	3 798	–	–	–	3 939
Profit for the year[1]	6 029 448	389 301	3 298 790	9 707 270	5 917 229	174 496	2 445 425	8 527 022

Refer to the footnotes on page 241.

	GROUP							
	2023				2022			
R'000	Retail bank	Business bank	Insurance	Total	Retail bank	Business bank	Insurance	Total
Assets								
Net loans and advances	63 491 048	14 676 755	–	78 167 803	54 437 597	12 111 506	–	66 549 103
Other[2]	107 143 452	7 931 733	3 288 393	112 731 728	106 365 224	5 767 937	1 155 758	110 478 519
Acquisition of Mercantile	–	–	–	901 092	–	–	–	915 159
Goodwill[1]	–	–	–	849 487	–	–	–	849 487
Intangible asset – core deposit intangible[1]	–	–	–	42 321	–	–	–	53 857
Intangible asset – client relationships[1]	–	–	–	9 284	–	–	–	11 815
Total assets[1][2]	170 634 500	22 608 488	3 288 393	191 800 623	160 802 821	17 879 443	1 155 758	177 942 781

[1] Consolidation entries not included segments.

[2] The Retail and Business bank assets include an amount of R5.6 billion (2022: R2.8 billion) in investments that eliminate against liabilities at a group level. Interest on the investments amounted to R382 million (2022: R291 million) and is disclosed in Retail bank interest expenses and Business bank interest on investments.

[3] The following line items, interest income, transaction fee and commission income and expenses, as well as operating expenses have been further disaggregated in line with the JSE's report on the proactive monitoring of financial statements recommendations.

33. Financial risk management

An extensive, multi-layered structure governs risk, however, the board is ultimately responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity. This includes ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board monitors the implementation of the risk strategy, approves the risk appetite and ensures that risks are managed within tolerance levels.

Note 33 should be read with the sections of the risk management report in the integrated annual report on pages 77 to 104 denoted as audited.

The enterprise risk management policy provides the governance structure, risk appetite and approach for the board's risk management discipline and ingrains a prudent risk culture. It defines the risk management universe, structure, policies and processes. An integrated approach in all business areas enables effective risk management processes from identification through to mitigation.

A 5-step iterative process consisting of risk identification, risk evaluation, risk treatment, risk monitoring and risk reporting is used to manage risk. A system of internal control functions throughout the entities in the group and the risk universe is managed by the EXCO, the risk and capital management committee (RCMC), the risk committee (RISCO), the Retail bank credit committee (RCC), the Business bank credit committee (BCC), the ALCO and the data steering committee (Data Steerco). These committees report to the RCMC, which is mandated by the board to oversee risk management. The RCMC, which comprises 3 independent non-executive directors, 3 non-executive directors and 1 executive director, oversees risk management according to a board-approved charter.

The specific risks dealt with by the RCMC's subcommittees, which comprise executive and senior management, are as follows:

- RISCO – legal, compliance, operational and reputational risk
- RCC and BCC – credit and counterparty risk
- ALCO – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Data Steerco – technology and information risk.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.1 Credit risk

Refer to pages 83 to 88 of the integrated annual report for the qualitative disclosure of credit risk, marked as audited, as well as note 8.

The Retail bank grants loans for which no security is obtained and, accordingly, the Retail bank clients' loan balances as per the statement of financial position are exposed to credit risk. Exposure to systemic credit risk is regarded as being potentially higher due to the credit characteristics of the client base. Exposure to single-name concentration credit risk is low, however, due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book. The Business bank also offers a spread of business banking products common to the banking industry. The core market focus is established small- to medium-sized businesses across a wide variety of industries as well as private banking to the respective entrepreneurs. A group subsidiary, Capitec Rental Finance, provides rental finance solutions with its core focus being the office automation, telecommunications and IT sectors.

Gross loans and advances exposures by economic sector are as follows:

R'000	2023	2022
Retail		
Government and municipalities	**34 202 839**	30 864 942
Retail and wholesale	**7 723 394**	6 553 243
Mining	**8 085 545**	7 058 238
Manufacturing and logistics	**14 253 303**	11 732 296
Services	**11 708 076**	9 839 863
Other	**6 323 587**	5 165 423
	82 296 744	71 214 005
Business		
Real estate	**3 640 364**	4 586 800
Manufacturing and logistics	**1 196 848**	994 267
Retail and wholesale	**3 558 159**	1 353 615
Financial and business(1)	**2 581 497**	2 894 667
Construction and transport(1)	**1 504 054**	952 077
Mining and agricultural(1)	**462 297**	328 740
Education and community(1)	**2 429 933**	1 669 908
Other(1)	**144 575**	113 845
	15 517 727	12 893 919

(1) *Other has been disaggregated in a manner that provides more granular information. The 2022 figure has been amended so that it is consistent with the more granular disaggregation.*

Credit risk is managed through every stage of the credit life cycle by following a combination of governance, decision support and business support. Governance includes regulators, industry associations, the group's financial governance and committees which support and influence credit strategy. Decision support is a specialist credit risk statistical analysis team that develops credit models and scorecards that are aligned with business strategies and credit risk appetite for unsecured retail lending. Credit risk management is provided by other areas of the business to ensure optimisation of the granting, collection and recovery models and systems.

Measures taken by the group to limit credit risk for unsecured retail lending to acceptable levels include, *inter alia*, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the RCMC. Dependent on the risk profile of the client across all portfolios of the Business bank, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are taken to mitigate credit-related risks.

Retail bank

The key consideration regarding credit risk management is to maintain the Retail bank lending book within the group's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

The reason why clients approach credit providers for credit is that they have specific requirements. These requirements include the need for home improvements, education, second-hand vehicles and medical expenses.

We encourage clients to match the term of the loan to the requirement for funds. Thus, short-term loans and facilities (similar to overdrafts) are used for cash flow reasons, while medium-term loans are matched against appliances and education. The predominant use of long-term loans is for housing. By continuously refining our credit offering, we are able to provide clients with unsecured credit solutions that best suit their personal needs and at competitive interest rates compared to the secured credit market.

In order to execute on this solution, we incorporate a comprehensive assessment of the client's behaviour, affordability and source of income. For the assessment, we use information from credit bureaus, bank statements and payslips. We apply 3 parallel disposable income calculations, i.e. the National Credit Act, Act 34 of 2005 (NCA) affordability calculation, a Capitec client disposable income calculation that maintains buffers for conservatism and the client's own calculation. We then apply the most stringent of the 3. Branch employees have no credit granting discretion and all exceptions are managed and monitored by a centralised specialist team.

During the loan application process, we present the maximum loan amount, maximum term and maximum instalment to the client. Within these constraints, the client may select any combination that best suits them. We encourage clients to take up credit for shorter periods of time and for smaller amounts. This is done through a pricing model that discounts the interest rate in instances where clients select a term that is shorter than the maximum for which they qualify. This is due to the manner in which the pricing for risk model reacts to the lower default rates for such clients.

When existing clients apply for further credit we conduct a full credit assessment. If a client qualifies for further credit, it can be extended as a further agreement in addition to the current credit, or the client can have the existing credit consolidated into a new credit agreement. This is only available for clients if instalments are up-to-date on all Capitec loans and to clients who have a satisfactory credit risk.

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

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

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. The circumstances may include:

- employers who reduce overtime and bonuses or place employees on short pay due to difficult economic conditions
- strikes
- clients who may be forced to change employment at reduced salaries due to poor performance or health problems
- financial problems faced by employers.

These instances may result in a client missing an instalment on a loan and being in arrears.

If the client is in arrears due to challenges regarding the client's inability to repay the debt, we either negotiate with the client to immediately bring the arrears instalments up-to-date, or we attempt to help and manage the situation through agreeing a course of action with the client by amending the loan agreement (loan reschedule).

Notes to the financial statements continued
Year ended 28 February 2023

33. Financial risk management continued

33.1 Credit risk continued

Retail bank continued

The first solution is preferable as it:

- reduces arrears if the client pays on the same date
- improves our cash flow
- helps restore the client to a creditworthy position
- limits the overall cost of credit for clients.

Practically, there is a risk that placing too much pressure on clients (such as expecting clients in financial distress to repay 2 instalments in a single month when they cannot afford to do so) can be counterproductive. In such a case, clients could refuse to cooperate, stop communicating with us and stop paying instalments.

We have extensive history that measures the yields we can receive by handing clients over to external debt collectors. We monitor the cash flow yields that we receive from this process against internal collection processes, including rescheduling. We optimise the strategy for different client groups and use handover samples for each strategy to monitor the relative performance and validate the strategy for each client group.

Factors that we consider in delivering the optimal strategy for a client include:

- the risk profile and payment history of the client
- the arrears status of the client
- whether the client's loans were rescheduled previously
- the credit exposure amount
- free cash flow estimates derived from clients' bank accounts or credit bureau records (salary less debit orders)
- any information we have about the client's employer.

Depending on a combination of factors, the optimal strategy is to encourage clients with some free cash flow or limited credit exposure to bring arrear instalments up-to-date, or assist clients who have cash flow difficulty but have good behaviour history to reduce their instalments and extend the term of the credit agreement (i.e. reschedule). When there is a clear temporary interruption of income such as a strike or a client is on maternity leave, we may allow a reduced instalment for a short period (typically 3 months) with subsequent increased instalments, in order to assist the client through this period (i.e. variable reschedule). We hand over clients and write the loan off when the problem appears to relate to the client's unwillingness or inability to pay.

We use system-based rules to limit instances where we allow rescheduling. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term for which the loan can be extended. We do not reschedule all loans that meet our criteria, as this depends on the individual circumstances of each client applying to reschedule. Successfully treating clients who were in arrears decreases the overall quality of the loan book, as clients who would otherwise have been written off remain on-balance sheet. We do, however, treat, monitor and separately disclose the performance of these clients.

We monitor the performance and cure rate of rescheduled loans using a segmented approach to ensure that it remains within the bank's risk appetite. Refer to note 8 for reschedule information.

This process allows us to optimise collections and reduce clients' debt levels. Our aim is always to partner with our clients through both good and tough times and act in their best interests.

Business bank

The group adopts a measured approach to credit granting for its Business bank clients, within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process automated on the bank's workflow system. Levels of credit approval mandates are determined by the experience of the mandated individual, with dual or multiple sign-off on all material values. Mandates have also been accorded to frontline management within predetermined rules and parameters as approved by the RCMC, which approvals are evaluated and monitored by the BCC on an ongoing basis.

An ongoing weekly review is undertaken by the BCC of all new and renewal proposals for lending in excess of R2 million (in aggregate). This meeting covers a wide variety of topics, including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the bank's advances portfolio composition and performance, and any other relevant credit-related matters requiring specific mention or discussion. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at the weekly BCC meeting with appropriate actions being taken.

Identified accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly 'watch list' meetings and reporting. To protect the group, prompt action is taken by senior internal stakeholders, including the executive: Business bank, on large defaults. This action has seen a good measure of historical success given our flat structure that drives agility.

Counterparties to derivatives expose the group to credit-related losses in the event of non-performance. The Business bank continually monitors its positions and the credit ratings, if applicable, of its counterparties and limits the value of agreements it enters into with any one party to within preapproved transactional limits.

Credit risk mitigation

Interest rate limits and fees for credit agreements were changed on 6 May 2016 by the National Credit Regulator. Prior to this date, we charged our Retail bank clients an all-inclusive rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-May 2016 loan book through a first-party cell captive structure. Following the changes from May 2016, all loans granted that are greater than 6 months require our Retail bank clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment, temporary or permanent disability and loss of income, and in the case of death, there is no claim against their deceased estate for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third-party cell captive.

Collateral and other credit enhancements

The group employs a range of policies and practices to mitigate credit risk for its Business bank clients. The most common of these is accepting collateral for funds advanced. The group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Business bank prepares a valuation of the collateral obtained as part of the loan origination process and this assessment is reviewed periodically. The principal collateral types for loans and advances are:

- mortgages over residential and commercial properties
- pledge and cession over business assets, such as stock and accounts receivable
- pledge and cession over financial instruments, such as pledge of call and savings accounts, fixed and notice deposits.

Longer-term finance and lending to small- to medium-sized businesses are generally secured, while credit card facilities are generally unsecured. The Business bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Business bank since the acquisition date.

A portion of the Business bank's financial assets originated by the mortgage business has sufficiently low loan-to- value ratios. The loss allowance would be reduced as a result of holding collateral.

The Business bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held to mitigate potential losses are detailed in note 8.

Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.1 Credit risk continued

Measurement of ECL continued

PD is an estimate of the likelihood of default over a given time horizon. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact the PD.

The calculation is based on a statistical model that predicts the future repayment performance of clients based on their arrears status, model segment and tenure. Future cash flows and arrears status probabilities are generated from which an ECL provision is calculated. The prediction of future repayment is based on observed roll rates over the last 12 months. Roll rates refer to the rates at which clients transition or roll from a repayment status in a given month to a repayment status in the following month.

LGD is an estimate of the loss arising on default. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a DCF basis. LGD models for secured business banking products are based on the difference between the contractual cash flows due and those that the group expects to receive, taking into account cash flows from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities.

The EAD is calculated by creating an amortisation structure for each account. This structure includes the expected monthly repayment as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The group uses EAD models that reflect the characteristics of the portfolios.

Impairment – measurement of the ECL

The development of the group's processes for measuring ECL, including the monitoring of SICR, the incorporation of economic forward-looking information and the methods used to calculate ECL, and ensuring that policies and procedures are in place to appropriately maintain and validate models used to measure ECL, are overseen by the group's CCs. The internal audit function performs regular audits to ensure that established controls and procedures are both adequately designed and implemented.

Impairment implementation

Staged approach to the determination of ECL

IFRS 9's ECL model requires the classification and measurement of ECL using the general model for loans and advances measured at amortised cost. In essence, the general model is a 3-stage model. Loans and advances within stage 1 are measured based on a 12-month ECL and a lifetime ECL is determined for loans and advances within stage 2 and stage 3. The definitions of the 3 stages are disclosed in the accounting policies for the Retail bank and the Business bank.

Significant increase in credit risk

The group considers reasonable and supportable information based on the group's historical experience, credit risk assessment and forward-looking information (including macroeconomic factors) when determining whether the credit risk (i.e. the risk of default) of loans and advances has increased significantly since initial recognition. The assessment of SICR is key in determining when to move from measuring an impairment provision based on a 12-month ECL to one that is based on a lifetime ECL (the move from stage 1 to stage 2). The group's ECL framework aligns with the group's credit granting strategy.

As disclosed in note 8, the group monitors financial debt instruments subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. If there has been a SICR, the group will measure the loss allowance based on lifetime rather than 12-month ECL.

In terms of IFRS 9, all loans and advances exposures are assessed at each reporting date (monthly) to determine whether there has been a SICR, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the impairment provision at an amount equal to the 12-month ECL. The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or where specific events have occurred that raise a SICR flag. The 12-month ECL is extended to a lifetime ECL for these clients.

The group has set certain behaviour and granting score thresholds for its unsecured Retail bank clients which are used to identify a SICR.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing client's propensity to be in default on a loan after 12 months. The score was built on a client level, utilising Capitec loans and savings account information as well as the credit exposure and repayment behaviour at external credit providers. The behaviour score is updated monthly on all existing loan clients to ensure that Capitec has a consistently updated view of the client.

The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposure that share similar credit characteristics in order to account for forward-looking information that may not be identified at an individual loan level.

The updated granting view is simply a reinterpretation of the information available at granting date and is not an updated view on the client. Updated client information is incorporated in the behaviour score.

The SICR thresholds are reviewed on an annual basis to ensure that they are able to identify SICR throughout the lifetime of the loan.

The group considers a financial instrument for its Business bank clients to have experienced a SICR if the borrower is on the watch list and/or meets at least 1 of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in the operating results of the borrower
- Significant change in the collateral value which is expected to increase the risk of default
- Early signs of cash flow or liquidity problems such as a delay in servicing of trade creditors and loans.

Irrespective of the outcome of the assessment according to the above criteria, the Business bank considers a loan to have experienced a SICR if the borrower is more than 1 month past due on their contractual payments.

Incorporation of forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future credit losses should not only depend on the health of the economy presently, but should take into account changes to the economic environment in the future.

To capture the effects of changes to the economic environment in the future, the forward-looking model for Retail bank considers economic variables specific to South Africa that directly impact the group's clients. The group utilises the BER macroeconomic outlook for the country over a planning horizon of 5 years. The outlook is provided to the ALCO for review and approval. Refer to notes 3.1.1, 3.2.1 and 8.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures.

A new methodology for incorporating forward-looking information was developed for the Business bank during the current year to align the methodology to that of the Retail bank. Forward-looking macroeconomic information is incorporated into measuring ECLs through the application of quantitative modelling and expert judgement-based post-model adjustments.

The impact of forward-looking macroeconomic information on ECL is determined based on historical relationships between movements in the macroeconomic variables and default rates. The quantitative models and post-model adjustments consider a range of forecast macroeconomic scenarios from the BER as inputs which are detailed in note 3.2.1.

Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.1 Credit risk continued

Write-off policy

Under IFRS 9, loans can only be written off when there is no reasonable expectation of recovery. The group therefore applies write-off for retail loans when the present value of projected future recoveries is less than 5% of the gross balance before write-off. Refer to note 2.5.1.2.3.

All recoveries after write-off are recognised as bad debts recovered.

Loans and debt securities for Business bank clients are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or a portion of it). This is the case when the group determines that the borrower does not have assets or sources of income that could generate enough cash flows to repay the amounts subject to the write-off. The group may apply enforcement activities to financial assets written off.

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 4 to 7). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the RCC and BCC, and monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's Investors Service (Moody's).

Credit quality of investments

At the statement of financial position date, the international long-term credit ratings, using Moody's ratings, were as follows:

R'000	Note	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	Not rated	Adjust-ment[3]	Total carrying amount
2023								
Cash on hand	4	–	–	–	3 345 159	–	–	3 345 159
Bank balances – local and foreign[1]	4	1 130 229	2 094 057	803	11 394 053	–	(84)	14 619 058
Resale agreements[1]	4	–	–	–	9 853 732	–	(664)	9 853 068
Central bank balances[2]	4	–	–	–	3 196 654	–	–	3 196 654
Investments in money market funds	5	–	–	–	–	289 051	–	289 051
Government bonds	6	–	–	–	12 709 404	–	(39 986)	12 669 418
Treasury bills (>3 months)	6	–	–	–	48 428 616	–	(63 797)	48 364 819
Term deposit investments	7	–	1 785 184	–	1 843 924	–	(946)	3 628 162
SARB settlement and other receivables	9	–	–	–	3 004 738	1 551 257	–	4 555 995
Net insurance receivable	10	–	–	–	1 509 371	–	–	1 509 371
Derivative assets	42	–	–	–	2 087	31 468	–	33 555
		1 130 229	3 879 241	803	95 287 738	1 871 776	(105 477)	102 064 310
2022								
Cash on hand	4	–	–	–	2 870 552	–	–	2 870 552
Bank balances – local and foreign[1]	4	1 261 573	625 206	1 109	17 994 686	–	(544)	19 882 030
Resale agreements[1]	4	–	–	–	8 442 802	–	(456)	8 442 346
Central bank balances[2]	4	–	–	–	3 043 900	–	–	3 043 900
Government bonds	6	–	–	–	12 047 420	–	(37 950)	12 009 470
Treasury bills (>3 months)	6	–	–	–	51 001 027	–	(70 773)	50 930 254
Term deposit investments	7	–	722 190	–	–	–	–	722 190
SARB settlement and other receivables	9	–	–	–	1 559 299	1 047 907	–	2 607 206
Net insurance receivable	10	–	–	–	677 935	–	–	677 935
Derivative assets	42	–	–	–	–	14 586	–	14 586
		1 261 573	1 347 396	1 109	97 637 621	1 062 493	(109 723)	101 200 469

(1) The bank balances and resale agreements are with 27 institutions (2022: 27), with the maximum exposure to 1 institution being R16.4 billion (2022: R17.3 billion). Balances are rand and foreign currency-denominated.

(2) All central bank balances are with the SARB and include the mandatory reserve deposit requirement.

(3) The adjustment relates to ECL. The credit ratings determine the ECL.

33.2 Interest rate risk

The exposure to interest rate risk is managed within board-approved tolerances. These tolerances are monitored by the RCMC and ALCO and escalated according to tolerance bands. The current group interest rate profile is monitored by the ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including, *inter alia*, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio.

Cash flow interest rate risk - hedging

The ALCO only allows derivatives for the hedging of R500 million of listed floating-rate bonds. Refer to note 17.

The group applies cash flow hedge accounting to mitigate changes in future cash flows on certain variable-rate financial instruments with the objective of mitigating variability in future cash flows resulting from changes in market rates. The following are the identified hedged items subject to cash flow hedge accounting:

- Floating-rate bonds (cash flow interest rate risk).

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest cash flows due to the movement of benchmark interest rates on recognised financial assets and financial liabilities. The change in the interest cash flows attributable to the change in benchmark rate is designated as the hedged risk for hedge accounting purposes. The variability in cash flows is hedged by cash collateralised vanilla interest rate swaps.

To manage the cash flow risk, the group enters into interest rate swaps that have similar critical terms as the hedged items, such as reference rates, reset dates, payment dates, maturities and notional amounts. Variable-rate assets are hedged with float-for-fixed interest rate swaps, and variable-rate liabilities are hedged with fixed-for-float interest rate swaps. The changes in the cash flows on the hedging instruments are therefore expected to offset the changes in the cash flows on hedged items, resulting in an economic relationship.

A 1:1 hedge ratio is applied as the nominal amount of the hedging instruments and the designated hedged item is the same. The nominal amounts and the payment dates of the hedging instrument match the hedged item exactly from the date of the hedge and, as a consequence, there is 100% hedge effectiveness.

In the cash flow hedge of interest rate risk, the main source of ineffectiveness is the fee that is paid upfront, however, as the fee is immaterial, it does not have a material impact on the hedge effectiveness.

Monitoring of interest rate risk

To measure interest rate risk, the group aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest repricing dates.

Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

The Financial Stability Board initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace the existing Interbank Offered Rates (IBOR) with alternative risk-free rates to improve market efficiency and mitigate systemic risk across financial markets. The SARB has published the South African Rand Overnight Index Average (ZARONIA) as the preferred successor rate that will most likely replace JIBAR. The preferred secured overnight rate is the South African Secured Overnight Financing Rate (ZASFR). Due to the uncertainty surrounding the timing and manner of the ZARONIA transition the related impacts are not currently determinable.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.2 Interest rate risk continued

Cash flow interest rate risk

The group actively manages interest rate risk with the objective to match certain fixed-rate assets with fixed-rate liabilities and floating-rate assets with floating-rate liabilities. The group reduced its exposure to fixed-rate financial assets by, in part, cash flow hedging elements of its variable-rate funding book to a fixed rate. Only R0.5 billion (2022: R0.5 billion) is designated for hedge accounting. Interest rate swaps have the economic effect of converting floating-rate debt to fixed-rate debt. The net unmatched position, resulting from the group's exposure to variable-rate funding from its retail deposits, exposes the group to cash flow interest rate risk.

Sensitivity analysis

The ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the bank which includes, *inter alia*, the results of various models and the impact of interest rate strategy on the gross margin. The following sensitivity analysis is a run-off analysis and reflects the interest rate repricing impact in the static balances of the statement of financial position of a 400 basis point interest rate shock over 12 months. Variable-rate-sensitive items would be impacted immediately by the interest rate shock. The net variable-rate exposure amounts to a R42.7 billion liability position (2022: R45.2 billion liability position). Fixed-rate items would not be impacted and funds received from maturing items are assumed to be reinvested at variable market interest rates. Net fixed-rate exposures maturing within 12 months amount to an asset position of R52.9 billion (2022: R54.7 billion asset position) and net fixed-rate exposures maturing after 12 months amount to an asset position of R19.6 billion (2022: R22.6 billion asset position).

Currently, our profit before tax is expected to decrease by R83.6 million (2022: R92.6 million) in the case of a 400 basis point upward shock and increase by R83.6 million (2022: R92.6 million) in the case of a 400 basis point downward shock.

400 basis points[1] R'000	Impact on income statement 2023 Pre-tax	2022 Pre-tax
Increase	(83 612)	(92 610)
Decrease	83 612	92 610

[1] *The sensitivity analysis in the prior year was based on an increase of 200 basis points. Profit before tax was expected to decrease by R46.3 million in the case of a 200 basis point upward shock and increase by R46.3 million in the case of a 200 basis point downward shock.*

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The group operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

33.3 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates.

The board determines market risk limits, which are reviewed at least annually or depending on prevailing market conditions.

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

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the asset and liability management (ALM) forum records this and it is immediately corrected and reported to the ALCO. Controls are in place to monitor foreign exchange exposures on a realtime basis through the bank's treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RCMC and the board on a regular basis.

33.4 Currency risk

Business bank

The Business bank, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities.

Foreign currency exposures as a result of the investment in foreign associates are disclosed in the consolidated statement of changes in equity (refer to note 23) and are not included in the table that follows.

The group has conservative net open foreign currency position limits that are well below the limits allowed by the SARB. For the year under review, the highest net open position recorded, for any single day, was R116.0 million (2022: R111.3 million).

Sensitivity analysis on pre-tax profit with all other variables held constant:

R'000	US dollar	Euro	Pound sterling	Other	Total
2023					
Rand weakens by 10%	(1 461)	(501)	294	(464)	(2 132)
Rand strengthens by 10%	1 461	501	(294)	464	2 132
2022					
Rand weakens by 10%	176	(292)	(491)	821	214
Rand strengthens by 10%	(176)	292	491	(821)	(214)

The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

R'000	US dollar	Euro	Pound sterling	Other	Total
2023					
Total foreign exchange assets	960 786	272 421	94 389	78 510	1 406 106
Total foreign exchange liabilities	(884 432)	(225 111)	(103 877)	(61 317)	(1 274 737)
Commitments to purchase foreign currency	525 337	270 084	63 353	45 151	903 925
Commitments to sell foreign currency	(581 396)	(310 433)	(57 951)	(55 903)	(1 005 683)
Year-end effective net open foreign currency positions	20 295	6 961	(4 086)	6 441	29 611
2022					
Total foreign exchange assets	1 006 076	387 167	199 667	79 075	1 671 985
Total foreign exchange liabilities	(849 607)	(193 606)	(199 403)	(62 281)	(1 304 897)
Commitments to purchase foreign currency	881 906	340 871	94 353	34 663	1 351 793
Commitments to sell foreign currency	(1 036 619)	(537 347)	(99 525)	(43 248)	(1 716 739)
Year-end effective net open foreign currency positions	1 756	(2 915)	(4 908)	8 209	2 142

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.5 Liquidity risk

The group manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by the ALCO in terms of an approved ALM policy. The maturity profile reflects the deliberate strategy of funding longer-term assets with a significant portion of long-term funding with limited use of core call deposit funding. Our conservative approach at times results in the holding of cash in excess of immediate operational requirements. Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due without incurring unacceptable losses.

The following table analyses the group's assets and liabilities into maturity groupings based on the remaining period, at the statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result
- The cash flows of floating-rate financial instruments are calculated using published forward market rates at the statement of financial position date
- The cash flows of the derivative financial instruments are included on a gross basis
- Contractual cash flows with respect to items which have not yet been recorded in the statement of financial position are excluded. Refer to note 37
- Adjustments to loans and advances to clients relate to initiation fee income
- Non-cash liabilities representing leave pay are disclosed as adjustments to trade and other payables
- Non-contractual loans comprise discounted stage 3 loans and advances that are more than 3 months in arrears and have legal statuses (including debt review), but exclude loans where debt review was applied for less than 6 months ago. They are shown as non-contractual because they are subject to legal collection processes.

Maturities of assets and liabilities[1][7]

		GROUP						
R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[4]	Total
2023								
Undiscounted assets								
Cash and cash equivalents – Sovereigns[3]	4	3 196 654	–	–	–	–	–	3 196 654
Cash and cash equivalents – banks[3]	4	27 085 545	752 450	–	–	–	(748)	27 837 247
Financial assets at FVTPL	5	289 051	–	–	–	–	–	289 051
Financial investments at amortised cost	6	11 556 889	6 527 350	32 933 409	21 827 199	–	(103 783)	72 741 064
Term deposit investments	7	–	3 669 199	–	–	–	(946)	3 668 253
Financial assets – equity instruments at FVOCI	11	–	–	–	73 880	–	–	73 880
Loans and advances – Retail	8	4 645 852	7 034 922	27 054 470	70 911 015	12 222 975	(275 986)	121 593 248
Loans and advances – Business	8	2 590 441	313 281	1 327 721	3 895 738	496 330	–	8 623 511
Loans and advances – Mortgage	8	136 048	239 742	1 011 629	11 908 609	631 829	–	13 927 857
Other receivables	9	4 227 874	–	238 520	23 204	68 300	–	4 557 898
Funeral plan income receivable		–	–	1 625 931	–	–	–	1 625 931
Net insurance receivable	10	–	–	1 509 371	–	–	–	1 509 371
Derivative assets	42	10 270	6 413	15 105	1 913	–	–	33 701
Current income tax asset		–	–	40 701	–	–	–	40 701
Undiscounted assets		53 738 624	18 543 357	65 756 857	108 641 558	13 419 434	(381 463)	259 718 367
Adjustments for undiscounted assets		(1 963 510)	(2 755 867)	(12 810 466)	(40 567 327)	–	–	(58 097 170)
Discounted assets								
Loan impairment provision		(784 488)	(582 500)	(2 323 298)	(6 589 866)	(9 366 516)	–	(19 646 668)
Total discounted assets		50 990 626	15 204 990	50 623 093	61 484 365	4 052 918	(381 463)	181 974 529

Refer to the footnotes on page 255.

		GROUP						
R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[4]	Total
2023								
Undiscounted liabilities								
Deposits	17	99 962 070	6 088 866	19 011 089	24 827 386	–	–	149 889 411
Wholesale funding	17	7 117	79 463	207 451	2 538 381	–	–	2 832 412
Lease liability	19	26 721	97 922	434 217	2 702 748	–	–	3 261 608
Trade and other payables	18	2 651 684	458 021	344 261	224 640	195 513	–	3 874 119
Derivative liabilities	42	8 086	5 859	9 720	18	–	–	23 683
Employee benefit liabilities	21	–	–	–	15 836	–	–	15 836
Undiscounted liabilities		102 655 678	6 730 131	20 006 738	30 309 009	195 513	–	159 897 069
Adjustments for undiscounted liabilities		(45 349)	(250 597)	(1 539 663)	(5 345 771)	–	–	(7 181 380)
Total discounted liabilities		102 610 329	6 479 534	18 467 075	24 963 238	195 513	–	152 715 689
Net liquidity excess/(shortfall)[5][6]		(49 701 542)	11 230 726	43 426 821	71 742 683	3 857 405	(381 463)	80 174 630
Cumulative liquidity excess/(shortfall)[2][6]		(49 701 542)	(38 470 816)	4 956 005	76 698 688	80 556 093	80 174 630	80 174 630
2022								
Undiscounted assets								
Cash and cash equivalents – Sovereigns[3]	4	3 043 900	–	–	–	–	–	3 043 900
Cash and cash equivalents – banks[3]	4	29 805 962	1 406 547	–	–	–	(1 000)	31 211 509
Financial investments at amortised cost	6	6 615 500	10 836 930	35 687 420	21 737 744	–	(108 723)	74 768 871
Term deposit investments	7	–	311 456	420 200	–	–	(44)	731 612
Financial assets – equity instruments at FVOCI	11	–	–	–	72 680	–	–	72 680
Loans and advances – Retail	8	4 467 109	6 067 675	23 712 769	62 701 621	9 170 366	(292 808)	105 826 732
Loans and advances – Business	8	2 011 694	247 313	1 028 746	3 283 772	428 131	–	6 999 656
Loans and advances – Mortgage	8	128 991	252 889	750 136	8 374 807	473 379	–	9 980 202
Other receivables	9	2 552 869	36 098	39 211	19 993	–	–	2 648 171
Funeral plan income receivable		–	–	477 823	–	–	–	477 823
Net insurance receivable	10	–	–	677 935	–	–	–	677 935
Derivative assets	42	6 408	2 032	6 146	–	–	–	14 586
Undiscounted assets		48 632 433	19 160 940	62 800 386	96 190 617	10 071 876	(402 575)	236 453 677
Adjustments for undiscounted assets		(1 889 411)	(2 277 406)	(10 553 105)	(35 833 894)	–	–	(50 553 816)
Discounted assets								
Loan impairment provision		(1 219 691)	(588 132)	(2 300 416)	(6 317 249)	(7 133 333)	–	(17 558 821)
Total discounted assets		45 523 331	16 295 402	49 946 865	54 039 474	2 938 543	(402 575)	168 341 040

Refer to the footnotes on page 255.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[(1)(7)] continued

R'000	Note	GROUP Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[(4)]	Total
2022								
Undiscounted liabilities								
Deposits	17	93 122 833	5 460 246	17 034 926	21 210 709	—	—	136 828 714
Wholesale funding	17	66 465	39 834	238 358	2 007 385	—	—	2 352 042
Lease liability	19	19 532	92 708	414 554	2 816 469	—	—	3 343 263
Current income tax liabilities		—	301 951	—	—	—	—	301 951
Trade and other payables	18	2 795 540	1 418 279	142 022	321 575	68 443	—	4 745 859
Derivative liabilities	42	6 489	8 762	12 820	6 617	—	—	34 688
Employee benefit liabilities	21	—	—	—	234 029	—	—	234 029
Undiscounted liabilities		96 010 859	7 321 780	17 842 680	26 596 784	68 443	—	147 840 546
Adjustments for undiscounted liabilities		(36 126)	(196 630)	(1 078 052)	(4 352 672)	—	—	(5 663 480)
Total discounted liabilities		95 974 733	7 125 150	16 764 628	22 244 112	68 443	—	142 177 066
Net liquidity excess/(shortfall)[(5)(6)]		(48 598 117)	11 251 028	42 657 290	63 276 584	2 870 100	(402 575)	71 054 310
Cumulative liquidity excess/ (shortfall)[(2)(6)]		(48 598 117)	(37 347 089)	5 310 201	68 586 785	71 456 885	71 054 310	71 054 310

Refer to the footnotes on page 255.

R'000	Note	GROUP 1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2023								
Undiscounted assets								
Financial investments at amortised cost	6	1 034 276	568 502	1 031 278	1 504 897	17 688 246	—	21 827 199
Financial assets – equity instruments at FVOCI	11	—	—	—	73 880	—	—	73 880
Loans and advances – Retail	8	27 229 407	19 278 509	13 049 427	8 402 171	2 951 501	—	70 911 015
Loans and advances – Business	8	1 525 836	1 170 324	766 977	308 125	109 914	14 562	3 895 738
Loans and advances – Mortgage	8	1 287 371	1 242 520	1 197 894	1 054 585	4 036 165	3 090 074	11 908 609
Other receivables	9	23 204	—	—	—	—	—	23 204
Derivative assets	42	1 913	—	—	—	—	—	1 913
Undiscounted assets		31 102 007	22 259 855	16 045 576	11 343 658	24 785 826	3 104 636	108 641 558
Adjustments for undiscounted assets		(11 220 523)	(7 606 335)	(6 075 111)	(5 561 618)	(9 130 276)	(973 464)	(40 567 327)
Discounted assets								
Loan impairment provision		(2 488 893)	(1 835 584)	(1 300 730)	(782 411)	(168 374)	(13 874)	(6 589 866)
Total discounted assets		17 392 591	12 817 936	8 669 735	4 999 629	15 487 176	2 117 298	61 484 365
Undiscounted liabilities								
Deposits	17	9 880 055	5 325 357	4 891 587	4 730 387	—	—	24 827 386
Wholesale funding	17	1 523 556	889 772	88 273	36 780	—	—	2 538 381
Lease liability	19	532 176	481 354	428 357	402 876	848 279	9 706	2 702 748
Trade and other payables	18	64 548	43 853	30 659	8 239	77 341	—	224 640
Derivative liabilities	42	18	—	—	—	—	—	18
Employee benefit liabilities	21	7 745	4 346	3 745	—	—	—	15 836
Undiscounted liabilities		12 008 098	6 744 682	5 442 621	5 178 282	925 620	9 706	30 309 009
Adjustments for undiscounted liabilities		(1 605 616)	(1 108 094)	(973 669)	(1 101 613)	(550 136)	(6 643)	(5 345 771)
Total discounted liabilities		10 402 482	5 636 588	4 468 952	4 076 669	375 484	3 063	24 963 238
Net liquidity excess/(shortfall)[(5)(6)]		16 605 016	13 679 589	9 302 225	5 382 965	23 691 832	3 081 056	71 742 683
Cumulative liquidity excess/ (shortfall)[(2)(6)]		21 561 021	35 240 610	44 542 835	49 925 800	73 617 632	76 698 688	76 698 688

Refer to the footnotes on page 255.

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R'000	Note	GROUP 1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2022								
Undiscounted assets								
Financial investments at amortised cost	6	985 157	982 794	527 804	979 938	18 262 051	—	21 737 744
Financial assets – equity instruments at FVOCI	11	—	—	—	72 680	—	—	72 680
Loans and advances – Retail	8	24 164 599	17 035 958	11 344 062	7 425 371	2 731 631	—	62 701 621
Loans and advances – Business	8	1 151 668	893 987	619 674	300 999	172 238	145 206	3 283 772
Loans and advances – Mortgage	8	907 001	858 128	822 016	773 403	2 884 295	2 129 964	8 374 807
Other receivables	9	17 645	2 348	—	—	—	—	19 993
Derivative assets	42	—	—	—	—	—	—	—
Undiscounted assets		27 226 070	19 773 215	13 313 556	9 552 391	24 050 215	2 275 170	96 190 617
Adjustments for undiscounted assets		(9 289 590)	(6 782 806)	(4 788 583)	(4 853 199)	(9 589 842)	(529 874)	(35 833 894)
Discounted assets								
Loan impairment provision		(2 473 207)	(1 810 532)	(1 194 247)	(657 000)	(130 071)	(52 192)	(6 317 249)
Total discounted assets		15 463 273	11 179 877	7 330 726	4 042 192	14 330 302	1 693 104	54 039 474
Undiscounted liabilities								
Deposits	17	8 766 977	4 202 314	4 199 411	4 042 007	—	—	21 210 709
Wholesale funding	17	253 164	1 471 503	116 987	116 987	48 744	—	2 007 385
Lease liability	19	532 358	474 894	438 814	407 786	947 052	15 565	2 816 469
Trade and other payables	18	98 518	65 739	39 540	24 314	93 464	—	321 575
Derivative liabilities	42	5 565	1 052	—	—	—	—	6 617
Employee benefit liabilities	21	123 273	105 787	4 969	—	—	—	234 029
Undiscounted liabilities		9 779 855	6 321 289	4 799 721	4 591 094	1 089 260	15 565	26 596 784
Adjustments for undiscounted liabilities		(1 250 609)	(951 080)	(779 998)	(841 574)	(519 664)	(9 747)	(4 352 672)
Total discounted liabilities		8 529 246	5 370 209	4 019 723	3 749 520	569 596	5 818	22 244 112
Net liquidity excess/(shortfall)[(5)(6)]		14 973 008	11 641 394	7 319 588	4 304 297	22 830 884	2 207 413	63 276 584
Cumulative liquidity excess/ (shortfall)[(2)(6)]		20 283 209	31 924 603	39 244 191	43 548 488	66 379 372	68 586 785	68 586 785

(1) *For the company, the contractual maturities of the financial assets and liabilities are all on demand to 1 month.*

(2) *Much of the liquidity shortfall in the demand to 3-month categories results from the investment of excess cash in treasury bills and government bonds with maturities in excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise, adjusted for fair value movements since purchase. Refer to note 33.7.*

(3) *The definitions of Sovereign, banks, corporate and retail are aligned with the Banks Act regulations.*

(4) *The adjustment includes adjustments to loan origination fees, deferred income and ECL.*

(5) *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*

(6) *Off-balance sheet guarantees and letters of credit for the Business bank to the value of R771 million (2022: R689 million) and R32 million (2022: R12 million), respectively, and irrevocable loan commitments to the value of R16 103 million (2022: R11 483 million) that have a maturity of demand to 1 month have not been included above.*

(7) *Assets and liabilities other than financial assets and liabilities are included in the analysis to provide a holistic view of liquidity management.*

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.6 Gains and losses per category of financial assets and financial liabilities

		GROUP					
		At FVTPL		At FVOCI	At amortised cost		
R'000	Note	Held for trading	Financial assets	Designated as hedges	Financial assets	Financial liabilities	Total
2023							
Interest income calculated using the effective interest rate method	24	–	–	–	20 783 348	–	20 783 348
Interest income on financial assets at FVTPL	24	–	415 915	–	–	–	415 915
Interest expense	24	–	–	–	–	(6 992 691)	(6 992 691)
Loan fee income	24	–	–	–	1 087 787	–	1 087 787
Loan fee expense	24	–	–	–	(9 094)	–	(9 094)
Transaction fee and commission income	24	–	–	–	–	16 561 749	16 561 749
Transaction fee and commission expense	24	–	–	–	–	(5 100 638)	(5 100 638)
Fair value gains on derivatives designated as hedges	23	–	–	10 215	–	–	10 215
Foreign currency income		494 778	–	–	–	–	494 778
Foreign currency expense		(332 348)	–	–	–	–	(332 348)
Funeral plan income		–	1 430 912	–	–	–	1 430 912
Credit impairment losses	26	–	–	–	(6 329 385)	–	(6 329 385)
2022							
Interest income calculated using the effective interest rate method	24	–	–	–	17 454 315	–	17 454 315
Interest income and gains from income funds		–	14 903	–	–	–	14 903
Interest expense	24	–	–	–	–	(4 837 898)	(4 837 898)
Loan fee income	24	–	–	–	968 856	–	968 856
Loan fee expense	24	–	–	–	(18 247)	–	(18 247)
Transaction fee and commission income	24	–	–	–	–	14 533 033	14 533 033
Transaction fee and commission expense	24	–	–	–	–	(4 018 567)	(4 018 567)
Fair value gains on derivatives designated as hedges	23	–	–	22 819	–	–	22 819
Foreign currency income		497 605	–	–	–	–	497 605
Foreign currency expense		(353 212)	–	–	–	–	(353 212)
Funeral plan income		–	905 847	–	–	–	905 847
Credit impairment losses	26	–	–	–	(3 507 754)	–	(3 507 754)

33.7 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

Determination of fair values and valuation processes

Fair values are market-based, calculated with reference to observable inputs available in the market, then less observable inputs and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistently with the unit of account used for the measurement of the asset or liability in the statement of financial position and income statement and assume an orderly market on a going concern basis.

The group finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques is an outcome of internal discussion and deliberation between members of the finance team who have modelling and valuation experience. The valuations are reported to the CFO and audit committee. Changes in fair values are analysed at each reporting date.

Hierarchy of fair value of financial instruments

The hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's assessment of what inputs would likely be from the perspective of the market. The group considers relevant and observable market inputs where these are available. Unobservable inputs are used in the absence of observable inputs. The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

The fair value hierarchy is applied to both those assets and liabilities measured at FVTPL and those measured using amortised cost. The table below summarises the classification of financial assets and financial liabilities and their fair values.

		GROUP								
		At FVTPL			At FVOCI	At amortised cost				
R'000	Note	Financial assets	Held for trading	As hedging instruments	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2023										
Financial assets										
Cash and cash equivalents	4	–	–	–	–	31 013 939	–	31 013 939	31 014 939	Level 2[(2)]
Financial assets at FVTPL	5	289 051	–	–	–	–	–	289 051	289 051	Level 2
Term deposit investments	7	–	–	–	–	3 628 162	–	3 628 162	3 628 162	Level 2
Financial investments at amortised cost	6	–	–	–	–	61 034 237	–	61 034 237	60 389 592	Level 2
Financial assets – equity instruments at FVOCI	11	–	–	–	73 880	–	–	73 880	73 880	Level 3
Net loans and advances – Retail	8	–	–	–	–	63 491 046	–	63 491 046	64 426 173	Level 3
Net loans and advances – Business	8	–	–	–	–	6 829 472	–	6 829 472	7 026 615	Level 3
Net loans and advances – Mortgage	8	–	–	–	–	7 847 285	–	7 847 285	7 876 719	Level 3
Other receivables	9	–	–	–	–	4 557 898	–	4 557 898	4 557 898	Lev5el 2[(2)]
Funeral plan income receivable[(3)]		1 625 931	–	–	–	–	–	1 625 931	1 625 931	Level 3
Derivative assets[(1)]	42	–	31 468	2 087	–	–	–	33 555	33 555	Level 2
Financial liabilities										
Deposits and bonds		–	–	–	–	–	146 498 203	146 498 203	146 185 316	
Listed bonds	17	–	–	–	–	–	2 008 902	2 008 902	2 012 513	Level 2
Unlisted fixed-term institutional deposits	17	–	–	–	–	–	429 892	429 892	431 953	Level 2
Deposits	17	–	–	–	–	–	144 059 409	144 059 409	143 740 850	Level 2
Derivative liabilities[(1)]	42	–	21 596	2 087	–	–	–	23 683	23 683	Level 2
Trade and other payables	18	–	–	–	–	–	2 446 755	2 446 755	2 446 755	Level 2[(2)]

(1) *Cash flow hedges.*

(2) *The fair values of these assets and liabilities closely approximate their carrying amounts due to their short-term or on-demand repayment terms.*

(3) *Funeral plan income receivable has been classified as financial assets FVTPL, in line with the group's accounting policies. Refer to notes 2.18.6 and 33.6.*

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.7 Fair value hierarchy and classification of financial assets and financial liabilities continued

Valuation processes continued

Hierarchy of fair value of financial instruments continued

		GROUP								
		At FVTPL			At FVOCI	At amortised cost				
R'000	Note	Financial assets	Held for trading	As hedging instruments	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2022										
Financial assets										
Cash and cash equivalents	4	–	–	–	–	34 238 828	–	34 238 828	34 238 828	Level 2[2]
Financial assets at FVTPL	5	–	–	–	–	–	–	–	–	Level 2
Term deposit investments	7	–	–	–	–	722 190	–	722 190	722 190	Level 2
Financial investments at amortised cost	6	–	–	–	–	62 939 724	–	62 939 724	62 796 629	Level 2
Financial assets – equity instruments at FVOCI	11	–	–	–	72 680	–	–	72 680	72 680	Level 3
Net loans and advances – Retail	8	–	–	–	–	54 437 597	–	54 437 597	55 988 561	Level 3
Net loans and advances – Business	8	–	–	–	–	5 564 942	–	5 564 942	5 564 942	Level 3
Net loans and advances – Mortgage	8	–	–	–	–	6 546 564	–	6 546 564	6 546 564	Level 3
Other receivables	9	–	–	–	–	2 648 171	–	2 648 171	2 648 171	Level 2[2]
Funeral plan income receivable[3]	9	477 823	–	–	–	–	–	477 823	477 823	Level 3
Derivative assets[1]	42	–	14 586	–	–	–	–	14 586	14 586	Level 2
Financial liabilities										
Deposits and bonds		–	–	–	–	–	134 458 570	134 458 570	136 010 764	Level 2
Listed bonds	17	–	–	–	–	–	1 254 438	1 254 438	1 252 243	Level 2
Unlisted fixed-term institutional deposits	17	–	–	–	–	–	805 755	805 755	792 932	Level 2
Deposits	17	–	–	–	–	–	132 398 377	132 398 377	133 965 589	Level 2
Derivative liabilities[1]	42	–	15 271	18 577	–	–	–	33 848	33 848	Level 2
Trade and other payables	18	–	–	–	–	–	2 218 180	2 218 180	2 218 180	Level 2[2]

[1] *Cash flow hedges.*
[2] *The fair values of these assets and liabilities closely approximate their carrying amounts due to their short-term or on-demand repayment terms.*
[3] *Funeral plan income receivable has been classified as financial assets FVTPL, in line with the group's accounting policies. Refer to note 2.18.6.*

33.8 Fair value calculation methods, inputs and techniques

Fair values of assets and liabilities reported in this note were market-based to reflect the perspective of a market participant.

Item and description	Valuation technique
Retail loans and advances	The expected present value technique was applied, discounting probability-weighted cash flows at a discount rate that ensures that no day-1 fair value gain or loss arises on new loans. This considers that loans are granted at market-related rates at the time of initiation. The level 3 fair value disclosed for loans and advances required the use of significant judgement by management in determining what a market-based valuation would be. An income approach was used, which calculated an expected present value in terms of a discount rate for a hypothetical market participant applied to the valuation cash flows. In summary, this approach calculates a discount rate which reflects the cost to the market participant plus that participant's required rate of return on investment. The cash flows used were probability-weighted and were generated by the same model that was used to generate the impairments on loans and advances. The key aspects involving the application of estimation of these cash flows are set out in note 3.2.3.
Business loans	The fair value of loans and advances that are carried at amortised cost approximates the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of the credit quality of the book.
Financial assets at FVTPL	Financial assets (income funds) with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and debt interest rate market, or external valuations that are based on published market inputs with the main assumptions being market input, uplifted with inflation. These instruments are classified as level 2 as the markets that they are quoted on are not considered to be active.
Funeral plan income receivable	The group's investment in the Centriq Insurance Company Limited cell captive arrangement is measured at fair value and classified as level 3. The fair value is based on the net asset value of the insurance cells at the statement of financial position date. There were no transfers between levels during the year.
Term deposit investments	Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period.
Financial investments at amortised cost – treasury bills	Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period.
Financial investments at amortised cost – government bonds	The JSE debt market bond pricing model uses the JSE debt market mark-to-market bond yield.
Derivative assets and liabilities	Derivatives, both assets and liabilities, were valued using the income approach. Derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps were fair valued on a discounted basis using forward interest rates and foreign currency rates extracted from observable yield and foreign currency market curves. Foreign exchange contracts were valued using applicable forward rates. The fair value of publicly traded derivatives and securities is based on quoted market values at the reporting date.
Deposits and bonds with call features	Specified terms for future repayment as well as retail deposits with a call feature which allows them to be withdrawn on demand. The fair values of the retail call deposits closely approximate their carrying amounts due to their demand nature. The fair values for instruments with specified future repayment terms were calculated as described as follows.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.8 Fair value calculation methods, inputs and techniques continued

Item and description	Valuation technique
Listed senior bonds	A market approach was used. Calculations used the all-in closing bond prices provided by the JSE's Interest Rate and Currency (JSE IRC) debt market. The pricing method used by the JSE links the bond at issue to a liquid government bond (a companion bond). The companion is chosen so as to best fit the characteristics of the Capitec issue, with the time to maturity being the most important factor. Spread information is obtained from market participants and is used to adjust the price subsequent to issue. Very small and very large trades are excluded due to the inherent discounts associated with large trades as well as the premium often charged for odd-lot trades.
Unlisted fixed-term institutional deposits	These comprise unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability.
Retail fixed-term deposits	An income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted, closing Capitec fixed-term deposit rates. The relevant rate used was that which matched the remaining maturity of the fixed deposit.
Secured funding	Is carried at amortised cost which approximates the fair value reported as they bear variable rates of interest.

33.9 Insurance risk

Classification

Insurance agreements are defined as those agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the issuer of the insurance agreement to pay significant additional benefits as envisaged at the inception of the agreement. Such agreements remain designated as insurance agreements until all rights and obligations are extinguished or expire.

Retail bank

On 31 March 2021, the group disposed of the shares in the cell captives held by Capitec Bank Limited to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec. Refer to note 44 for details surrounding the cell captive transfer.

The group has 2 third-party cell captive agreements where Capitec Ins Proprietary Limited is the sole owner of the cell captives, which are underwritten by a licensed cell captive insurer.

The group is not exposed to any insurance risk on the funeral policies that it offers to clients as this product is fully reinsured.

The credit life policies, however, are not reinsured and as a result the group is exposed to insurance risk on this product offering. The insurance risk on the credit book is twofold: (i) the risk that the group has insufficient capital to settle valid claims made by policyholders; (ii) the group has a contractual obligation to maintain the solvency of the cell captive and ensure that sufficient capital exists to meet its obligations should 'shock' events or catastrophes occur.

The cell captive agreement enables the group to provide credit life policies and funeral policies to its clients. When clients are granted credit for 7 months or longer, the group requires the client to have credit life insurance in place to cover death, permanent disability, temporary disability, retrenchment or the inability to earn income other than as a result of disability. The same requirement is applicable for credit card and access facility clients (except for certain clients where the credit life insurance is voluntary).

Clients can provide the group with an existing credit life policy, enter into a new policy with the group or take out a similar credit life policy with another insurer.

Risk governance

The board of directors of the group is ultimately responsible for risk management. To assist the board with the responsibility, the group is managed through a system of internal controls functioning throughout the group. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group.

The RCMC, which includes 3 independent non-executive directors, operates in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and assesses their impact on the group.

The RCMC provides oversight over risk management and is responsible for the following in the insurance operations:

- Providing oversight of the product types
- Financial resource management
- Approving new products.

The responsibility of challenging the results of the pricing of the insurance portfolio lies with the ALCO.

The licensed cell captive insurer has a robust corporate governance and regulatory framework in place to manage insurance risk. The cell captive insurer has the following subcommittees in place which govern and challenge inputs, models and results of valuations:

- Audit and risk committee
- Risk management function
- Internal audit function
- Compliance function
- Actuarial control function.

The licensed cell captive insurer performs the actuarial function which includes (but is not limited to) premium rating, capital and reserving requirements and risk mitigating strategies. This is an important part of the own risk and solvency assessment process.

Senior management of the group actively monitors and reviews the work performed by the licensed cell captive insurer. Items such as monthly results, premium turnover, claims experience, solvency and provision calculations are discussed and debated in detail to ensure that they are reasonable and align with the group's risk appetite. Any material changes to calculations and/or identified risks are summarised and presented to the RCMC.

General risk management

As the group's insurance portfolio is housed in a third-party cell captive agreement, the group is jointly responsible for the insurance risk which is managed in 2 separate processes:

- The pricing of the Insurance business
- Management of the in-force book.

Product design and pricing

The group ensures that the insurance portfolio is priced correctly and understood in detail by following the steps below:

- Rigorous and proactive risk management ensures sound product design and accurate pricing. This includes:
  - challenging assumptions, methodologies and results
  - debating and challenging product relevance, the target market, market competitiveness and treating clients fairly
  - identifying potential risk
  - thoroughly reviewing policy terms and conditions
- Risk-based pricing is applied and the mix of business by channel is also monitored
- Maintaining the appropriate reinsurance cover is an important component of the pricing and product design to keep the insurance risk within appetite.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.9 Insurance risk continued

Management of the in-force book

The licensed cell captive insurer assesses and manages the insurance risk relating to the in-force book as follows:

- Monitoring and reporting claims experience by considering incidence rates and claims ratios
- The actuarial valuation process involves the long-term projection of expected future cash flows arising from in-force policies and the setting up of insurance liabilities
- Experience investigations are performed annually to understand the actual experience compared to the basis used in valuations and pricing. These investigations are signed off by the head of actuarial function. Where required, changes are made to pricing and product design
- Asset liability management is performed to ensure that asset-backing insurance liabilities are appropriate and liquid
- Stress and scenario analyses are performed and provide insights into the insurance risk and future capital position.

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially to the extent that claims paid are more frequent and/or greater than originally estimated. The group manages insurance risk through monitoring incidence rates, claims ratios and business mix.

Detailed risk management per risk type

Insurance risk is the risk of losses due to experience being different from the assumptions used in pricing or reserving such as severity, frequency, trend, volatility or level of occurrence rates. The credit life policies expose the group to insurance risks such as:

Mortality (death) risk

This is the risk that mortality rates and the associated cash flows are different from those assumed and is managed as follows:

- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at the claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

Morbidity risk

This is the risk that morbidity rates and the associated cash flows are different from those assumed and is managed as follows:

- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at the claim stage to ensure only valid claims in line with the terms and conditions are paid.

Retrenchment risk

This is the risk that retrenchment rates and the associated cash flows are different from those assumed and is managed as follows:

- Identification of retrenchment risk is controlled by the bank's credit scoring
- Regular monitoring of exposure by industry and employer and feedback into risk selection
- Monitoring of trends and experience of the insurance portfolio
- Validation and fraud checks are performed at the claim stage to ensure only valid claims in line with the terms and conditions are paid.

Catastrophe risk

This is the risk that stems from extreme or irregular events contingent on mortality, morbidity or retrenchment whose effects are not expected. The risk is managed as follows:

- Monitoring of trends and experience of the insurance portfolio.

Lapse risk

This is the risk that lapse rates and the associated cash flows are different from those assumed as well as the risk of mass lapse, and is managed as follows:

- Collection strategies are regularly reviewed to ensure they remain optimal
- Changes to product lapse rules are made where more lenient lapse rules can benefit the client and the group.

Expense risk

This is the risk that expense and/or expense inflation is different from that assumed in pricing and valuations. The group has a rigorous budgeting process in place to manage the risk.

The insurance risk is primarily linked to credit risk which is disclosed in detail in note 33.1.

The table below demonstrates the insurance exposure per risk per sum assured at risk. The group does not hold any reinsurance agreements.

Total exposure by size of sum assured for all credit products

	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	Balance R'000	%	Balance R'000	%	Balance R'000	%	Balance R'000	%
2023								
R0 – R49 999	21 485 607	29.3	21 443 988	31.9	21 485 607	29.3	13 786 160	36.7
R50 000 – R99 999	15 790 543	21.5	15 709 490	23.4	15 790 543	21.5	8 902 527	23.7
R100 000 – R149 999	12 916 169	17.6	11 690 448	17.4	12 916 169	17.6	5 943 100	15.8
R150 000 – R199 999	11 400 524	15.5	9 553 357	14.2	11 400 524	15.5	4 640 852	12.3
R200 000 – R249 999	9 321 803	12.7	6 969 398	10.4	9 321 803	12.7	3 431 138	9.1
>R250 000	2 427 104	3.4	1 791 883	2.7	2 427 104	3.4	880 419	2.4
Total sum assured	73 341 750	100.0	67 158 564	100.0	73 341 750	100.0	37 584 196	100.0

Insurance exposure per risk

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:**
  - Loans granted before 10 May 2020: Full outstanding loan balance on event date
  - Loans granted on 10 May 2020 and after: 24 monthly instalments on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

Notes to the financial statements continued

Year ended 28 February 2023

33. Financial risk management continued

33.9 Insurance risk continued

Total exposure by size of sum assured for all credit products continued

Retail sums assured at risk	Death Balance R'000	Death %	Retrenchment Balance R'000	Retrenchment %	Permanent disability Balance R'000	Permanent disability %	Temporary disability Balance R'000	Temporary disability %
2022								
R0 – R49 999	19 655 372	30.0	19 758 247	32.5	19 655 372	30.0	12 483 069	37.6
R50 000 – R99 999	14 757 812	22.5	14 654 452	24.1	14 757 812	22.5	8 169 550	24.6
R100 000 – R149 999	11 698 905	17.9	10 729 829	17.6	11 698 905	17.9	5 283 737	15.9
R150 000 – R199 999	9 671 910	14.8	8 269 637	13.6	9 671 910	14.8	3 852 050	11.6
R200 000 – R249 999	9 048 605	13.8	6 907 850	11.4	9 048 605	13.8	3 222 776	9.7
>R250 000	666 739	1.0	504 659	0.8	666 739	1.0	214 064	0.6
Total sum assured	65 499 343	100.0	60 824 674	100.0	65 499 343	100.0	33 225 246	100.0

Insurance exposure per risk

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:** Full outstanding loan balance on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

Insurance risk mitigation

The insurance risk is mitigated by diversification across geographical areas, industries and employers.

The group can purchase reinsurance through its cell captive facility as part of its risk mitigation programme. Reinsurance transfers risk away from the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserving for claims. The variability of risks is improved by reinsurance cover which is reviewed annually. Currently, the group only reinsures funeral policies.

Process to determine significant assumptions

Insurance liabilities: Unearned premium provision

The provision for unearned premiums represents the proportion of the current reporting period's premiums that relate to risk periods extending into the following reporting period. No provision is held for unearned premiums as all agreements have monthly premiums which are earned by the end of the current reporting period.

Insurance liabilities: Premium deficiency provision

The group does not hold a premium deficiency provision as the business is profitable and is expected to remain profitable.

Insurance liabilities: IBNR provision

The insurance liabilities comprise a provision for IBNR claims. The IBNR provision is measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. This is determined by applying a percentage to premiums written during the period, in line with Solvency Assessment and Management (SAM) regulations.

For incident periods that are up to 75% developed, the development factors and loss ratios are derived from the group's historical claims data. For incident periods that are less than 75% developed, the group applies actuarial judgement together with available data to estimate the ultimate loss ratio.

Sensitivities

The following table sets out what the IBNR liability would be if the key inputs, being the development factors and the loss ratios which are both based on historical claims data, were changed as set out below.

R'000	2023	2022
Retrenchment	200 852	221 230
Death	68 147	73 187
Disability	52 986	64 893
Total IBNR provision	321 985	359 310
Retrenchment	230 980	254 415
Death	73 258	78 676
Disability	60 934	74 627
Total IBNR provision with added sensitivities[1]	365 172	407 718

[1] Key inputs used in determining the IBNR liability were increased by the following:
– 15% (2022: 15%) retrenchment
– 15% (2022: 15%) morbidity
– 7.5% (2022: 7.5%) mortality.

34. Retirement benefits

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined contribution fund, is administered independently of the group and is subject to the Pension Funds Act, Act 24 of 1956. The amount contributed is included in salaries and bonus costs as per note 27.	596 105	483 409	–	–

The group contributes to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable other than those set out in note 20.

Notes to the financial statements continued

Year ended 28 February 2023

35. Related party transactions

During the year, the company and its subsidiaries in the ordinary course of business entered into various transactions with other group companies.

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Subsidiaries				
Dividends				
Ordinary dividend received (Capitec Bank Limited)	—	—	3 917 498	3 346 086
Preference dividend received (Capitec Bank Limited)	—	—	4 185	3 207
Ordinary dividend received (Capitec Ins Proprietary Limited)	—	—	1 562 000	405 364
Management fees received – Capitec Bank Limited	—	—	4 096	6 181
Joint venture				
Grants paid	15 950	9 091	—	—
Service fees	3 041	455	—	—
Imvelo Ventures	18 991	9 546	—	—
Bank account				
Capitec Bank Limited	—	—	696	713 343
Loans due (to)/from:				
Capitec Bank Limited[2]	—	—	(24 405)	(13 681)
Key management				
Key management employees' remuneration				
Salaries and other short-term benefits	56 987	53 116	—	—
Post-employment benefits	2 527	1 934	—	—
Share-based payments	35 328	47 126	—	—
Key management compensation paid by subsidiaries[1]	94 842	102 176	—	—

[1] Key management is considered to be the members of the group EXCO, excluding development members. Key management compensation excludes directors' remuneration. The members of the group EXCO are the prescribed officers of the company.

[2] Refer to note 36.6 for movements.

Refer to note 44 for details of the loan provided by the company to Capitec Ins Proprietary Limited for the transfer of cell captives at carrying amount between subsidiaries in the prior period. The loan was settled during the prior period.

Loans to companies where directors are shareholders

Included in loans and advances to clients is a loan in the amount of R15.2 million to Sureship Investments Proprietary Limited in which Mr G Fourie is a shareholder.

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme and retail loans[1]				
Loans outstanding at the beginning of the year	2 970	2 965	—	—
Loans advanced during the year	25 899	116	—	—
Interest and fees charged on loans during the year	381	169	—	—
Loan repayments during the year	(24 457)	(280)	—	—
Loans outstanding at the end of the year	4 793	2 970	—	—
Retail deposits from directors and other key management employees[2]				
Deposits at the beginning of the year	37 521	18 253	—	—
Interest earned during the year	1 700	730	—	—
(Withdrawals)/Deposits made during the year	(22 158)	18 538	—	—
Deposits at the end of the year	17 063	37 521	—	—

[1] Loans to other key management employees by subsidiaries have fixed repayment terms and bear interest at the official rate of interest for individuals as determined by the South African Revenue Service.

[2] Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.

Directors' interest in agreements

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant agreement with the company or any of its subsidiaries which could have given rise to a conflict of interest during the year.

Directors' interest in share capital

At year-end, the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 21.9 million (2022: 21.9 million) Capitec Bank Holdings Limited shares, equivalent to 18.9% (2022: 18.8%) of the issued ordinary share capital.

The individual interests of the directors including those who resigned and retired during the year were as follows:

	Number of shares held					
	Beneficial		Non-beneficial		Total	
Ordinary shares	Direct	Indirect[1]	Direct	Indirect[1]	Shares	%
2023						
KE Barker[7]	889	—	—	—	889	—
SL Botha *(chairman)*	—	—	—	—	—	—
AP du Plessis[4]	13 791	887 315	—	—	901 106	0.78
SA du Plessis	700	—	—	—	700	—
MS du Pré le Roux[5]	—	—	—	13 190 043	13 190 043	11.36
CH Fernandez	—	—	—	—	—	—
GM Fourie[2]	4 763	1 015 203	—	7 707	1 027 673	0.88
GR Hardy[2]	3 718	—	—	—	3 718	—
V Mahlangu	—	—	—	—	—	—
TE Mashilwane	—	—	—	—	—	—
NS Mashiya[2]	15 774	7 399	—	—	23 173	0.02
DP Meintjes	—	—	—	—	—	—
PJ Mouton	—	6 685 622	—	66 914	6 752 536	5.82
CA Otto	1 092	—	—	—	1 092	—
JP Verster	—	—	—	—	—	—
Total shares held[3]	40 727	8 595 539	—	13 264 664	21 900 930	18.86

Refer to the footnotes on page 269.

Notes to the financial statements continued

Year ended 28 February 2023

35. Related party transactions continued

Directors' interest in share capital continued

Ordinary shares	Number of shares held – Beneficial Direct	Beneficial Indirect[1]	Non-beneficial Direct	Non-beneficial Indirect[1]	Total Shares	Total %
2022						
SL Botha *(chairman)*	—	—	—	—	—	—
AP du Plessis[2][4]	—	887 315	—	—	887 315	0.76
SA du Plessis	700	—	—	—	700	—
MS du Pré le Roux[5]	—	—	—	13 190 043	13 190 043	11.36
CH Fernandez	—	—	—	—	—	—
GM Fourie[2]	1 861	1 009 203	—	7 707	1 018 771	0.88
V Mahlangu	—	—	—	—	—	—
TE Mashilwane	—	—	—	—	—	—
NS Mashiya[2]	15 774	2 624	—	—	18 398	0.02
DP Meintjes	—	—	—	—	—	—
JD McKenzie[6]	—	—	—	—	—	—
PJ Mouton	—	6 685 622	—	66 914	6 752 536	5.82
CA Otto	1 092	—	—	—	1 092	—
JP Verster	—	—	—	—	—	—
Total shares held	19 427	8 584 764	—	13 264 664	21 868 855	18.84

[1] *Includes shareholding through associates as defined in terms of the JSE Listings Requirements.*

[2] *Executive.*

[3] *No transactions occurred after year-end and before the date of approval of the financial statements that can impact any shareholding of any director.*

[4] *Mr A du Plessis retired from the board on 30 June 2022.*

[5] *Mr MS du Pré le Roux's associates, Limietberg Sekuriteit Proprietary Limited (Limietberg) and Kalander Sekuriteit Proprietary Limited (Kalander), underwent a restructure resulting in Limietberg transferring Capitec Bank Holdings Limited (Capitec) shares to Kalander such that Limietberg's shareholding in Capitec is 4.89% and Kalander's shareholding in Capitec is 5.95%. Further to announcements released on the Stock Exchange News Service (SENS) on 20 December 2018 and 1 July 2021, relating to the hedging and financing transaction over a portion of a shareholding in Capitec (2018 transaction) held by Kalander and due to the expiry and financing repayment date of the 2018 transaction, Kalander concluded a new hedging and financing transaction over 330 000 shares on 30 July 2021. On each of 15 and 19 November 2021, Kalander concluded new hedging and financing transactions over 165 000 Capitec shares, respectively, and on 20 December 2021, Kalander concluded a further new hedging and financing transaction over 590 000 Capitec shares. Further to announcements released on SENS on 16 May 2022, 15 June 2022 and 4 July 2022, Kalander cash-settled the hedging and financing transaction announced on SENS on 11 June 2019, and implemented new hedging and refinancing transactions over 575 000 and 625 000 shares respectively, released from the settled transactions (the 'refinancing' transactions). In aggregate, 3.7 million Capitec shares are subject to the hedging transactions as at 28 February 2023 (2022: 4.3 million). Financing facilities are covered by 3.2 million Capitec shares. The intention remains to eventually cash-settle the hedging transactions.*

[6] *Mr JD McKenzie retired on 28 May 2021.*

[7] *Ms KE Barker was appointed on 26 October 2022 as an executive director of Capitec Life Limited.*

Directors' interest in share incentive scheme – options

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised/cancelled)/ options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
2023								
AP du Plessis	28 March 2022	28 March 2018	881.76	3 780	(3 780)	2 276.02	29 April 2022	—
(direct beneficial)	29 March 2022	1 April 2017	705.93	3 928	(3 928)	2 276.02	29 April 2022	—
		29 March 2019	1 175.01	3 177	(3 177)	2 276.02	29 April 2022	—
	1 April 2022	1 April 2016	473.05	5 605	(5 605)	2 276.02	29 April 2022	—
	28 March 2023	28 March 2018	881.76	3 780	—	—	—	3 780
	29 March 2023	1 April 2017	705.93	3 928	—	—	—	3 928
		29 March 2019	1 175.01	3 176	—	—	—	3 176
	8 April 2023	8 April 2020	973.05	4 152	—	—	—	4 152
	28 March 2024	28 March 2018	881.76	3 780	—	—	—	3 780
	29 March 2024	29 March 2019	1 175.01	3 176	—	—	—	3 176
	8 April 2024	8 April 2020	973.05	4 152	—	—	—	4 152
	12 April 2024	11 February 2021	1 392.19	3 156	—	—	—	3 156
	29 March 2025	29 March 2019	1 175.01	3 176	—	—	—	3 176
	8 April 2025	8 April 2020	973.05	4 152	—	—	—	4 152
	12 April 2025	11 February 2021	1 392.19	3 155	—	—	—	3 155
	8 April 2026	8 April 2020	973.05	4 152	—	—	—	4 152
	12 April 2026	11 February 2021	1 392.19	3 155	—	—	—	3 155
	12 April 2027	11 February 2021	1 392.19	3 155	—	—	—	3 155
Total options				66 735	(16 490)			50 245
GM Fourie	28 March 2022	28 March 2018	881.76	5 739	(5 739)	2 223.16	3 May 2022	—
(direct beneficial)	29 March 2022	1 April 2017	705.93	6 377	(6 377)	2 223.16	3 May 2022	—
		29 March 2019	1 175.01	5 107	(5 107)	2 223.16	3 May 2022	—
	1 April 2022	1 April 2016	473.05	9 169	(9 169)	2 223.16	3 May 2022	—
	28 March 2023	28 March 2018	881.76	5 739	—	—	—	5 739
	29 March 2023	1 April 2017	705.93	6 376	—	—	—	6 376
		29 March 2019	1 175.01	5 107	—	—	—	5 107
	8 April 2023	8 April 2020	973.05	6 676	—	—	—	6 676
	28 March 2024	28 March 2018	881.76	5 739	—	—	—	5 739
	29 March 2024	29 March 2019	1 175.01	5 107	—	—	—	5 107
	8 April 2024	8 April 2020	973.05	6 676	—	—	—	6 676
	12 April 2024	11 February 2021	1 392.19	5 421	—	—	—	5 421
	29 March 2025	29 March 2019	1 175.01	5 107	—	—	—	5 107
	8 April 2025	8 April 2020	973.05	6 676	—	—	—	6 676
	12 April 2025	11 February 2021	1 392.19	5 420	—	—	—	5 420
	23 April 2025	22 February 2022	2 067.19	—	4 629	—	—	4 629
	8 April 2026	8 April 2020	973.05	6 675	—	—	—	6 675
	12 April 2026	11 February 2021	1 392.19	5 420	—	—	—	5 420
	23 April 2026	22 February 2022	2 067.19	—	4 628	—	—	4 628
	12 April 2027	11 February 2021	1 392.19	5 420	—	—	—	5 420
	23 April 2027	22 February 2022	2 067.19	—	4 628	—	—	4 628
	23 April 2028	22 February 2022	2 067.19	—	4 628	—	—	4 628
Total options				107 951	(7 879)			100 072

[1] *The director has 6 months after maturity to exercise the share options.*

Notes to the financial statements continued

Year ended 28 February 2023

35. Related party transactions continued

Directors' interest in share incentive scheme – options continued

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised/cancelled)/ options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
2023								
NS Mashiya	28 March 2022	28 March 2018	881.76	1 187	(1 187)	2 305.00	12 April 2022	–
(direct beneficial)	29 March 2022	1 April 2017	705.93	1 353	(1 353)	2 305.00	12 April 2022	–
		29 March 2019	1 175.01	878	(878)	2 305.00	12 April 2022	–
	1 April 2022	1 April 2016	473.05	1 947	(1 947)	2 305.00	12 April 2022	–
	28 March 2023	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	877	–	–	–	877
	8 April 2023	8 April 2020	973.05	1 147	–	–	–	1 147
	1 October 2023	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	28 March 2024	28 March 2018	881.76	1 187	(1 187)	–	28 February 2023	–
	29 March 2024	29 March 2019	1 175.01	877	(877)	–	28 February 2023	–
	8 April 2024	8 April 2020	973.05	1 147	(1 147)	–	28 February 2023	–
	12 April 2024	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	1 October 2024	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	29 March 2025	29 March 2019	1 175.01	877	(877)	–	28 February 2023	–
	8 April 2025	8 April 2020	973.05	1 147	(1 147)	–	28 February 2023	–
	12 April 2025	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	23 April 2025	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	1 October 2025	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	8 April 2026	8 April 2020	973.05	1 146	(1 146)	–	28 February 2023	–
	12 April 2026	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	23 April 2026	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	1 October 2026	1 October 2020	908.58	1 571	(1 571)	–	28 February 2023	–
	12 April 2027	11 February 2021	1 392.19	1 470	(1 470)	–	28 February 2023	–
	23 April 2027	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	23 April 2028	22 February 2022	2 067.19	–	–	–	28 February 2023	–
Total options				28 480	(23 916)			4 564
GR Hardy[2]	28 September 2023	28 September 2020	911.63	412	–	–	–	412
(direct beneficial)	28 September 2024	28 September 2020	911.63	412	–	–	–	412
	23 April 2025	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2025	1 July 2022	2 106.13	–	413	–	–	413
	28 September 2025	28 September 2020	911.63	411	–	–	–	411
	23 April 2026	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2026	1 July 2022	2 106.13	–	412	–	–	412
	28 September 2026	28 September 2020	911.63	411	–	–	–	411
	23 April 2027	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2027	1 July 2022	2 106.13	–	412	–	–	412
	23 April 2028	22 February 2022	2 067.19	–	1 133	–	–	1 133
	1 July 2028	1 July 2022	2 106.13	–	412	–	–	412
Total options				1 646	6 184	–	–	7 830
Total options held by directors				204 812	(40 529)			164 283

(1) The director has 6 months after maturity to exercise the share options.

(2) Mr GR Hardy was appointed as a director on 1 July 2022.

Directors' interest in share incentive scheme – SARs

Director	Maturity date[1]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised/cancelled)/ SARs granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
2023								
AP du Plessis	28 March 2022	28 March 2018	882	3780	(3 780)	2 276.02	29 April 2022	–
(direct beneficial)	29 March 2022	1 April 2017	705.93	3 928	(3 928)	2 276.02	29 April 2022	–
		29 March 2019	1 175.01	3 177	(3 177)	2 276.02	29 April 2022	–
	1 April 2022	1 April 2016	473.05	5 605	(5 605)	2 276.02	29 April 2022	–
	28 March 2023	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2023	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2023	8 April 2020	973.05	4 152	–	–	–	4 152
	28 March 2024	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2024	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2024	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2024	11 February 2021	1 392.19	3 156	–	–	–	3 156
	29 March 2025	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2025	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2025	11 February 2021	1 392.19	3 155	–	–	–	3 155
	8 April 2026	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2026	11 February 2021	1 392.19	3 155	–	–	–	3 155
	12 April 2027	11 February 2021	1 392.19	3 155	–	–	–	3 155
Total SARs				66 735	(16 490)			50 245
GM Fourie	28 March 2022	28 March 2018	881.76	5 739	(5 739)	2 276.02	29 April 2022	–
(direct beneficial)	29 March 2022	01 April 2017	705.93	6 377	(6 377)	2 276.02	29 April 2022	–
		29 March 2019	1 175.01	5 107	(5 107)	2 276.02	29 April 2022	–
	01 April 2022	01 April 2016	473.05	9 169	(9 169)	2 276.02	29 April 2022	–
	28 March 2023	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2023	01 April 2017	705.93	6 376	–	–	–	6 376
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	08 April 2023	08 April 2020	973.05	6 676	–	–	–	6 676
	28 March 2024	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2024	29 March 2019	1 175.01	5 107	–	–	–	5 107
	08 April 2024	08 April 2020	973.05	6 676	–	–	–	6 676
	12 April 2024	11 February 2021	1 392.19	5 421	–	–	–	5 421
	29 March 2025	29 March 2019	1 175.01	5 107	–	–	–	5 107
	08 April 2025	08 April 2020	973.05	6 676	–	–	–	6 676
	12 April 2025	11 February 2021	1 392.19	5 420	–	–	–	5 420
	23 April 2025	22 February 2022	2 067.19	–	4 629	–	–	4 629
	08 April 2026	08 April 2020	973.05	6 675	–	–	–	6 675
	12 April 2026	11 February 2021	1 392.19	5 420	–	–	–	5 420
	23 April 2026	22 February 2022	2 067.19	–	4 628	–	–	4 628
	12 April 2027	11 February 2021	1 392.19	5 420	–	–	–	5 420
	23 April 2027	22 February 2022	2 067.19	–	4 628	–	–	4 628
	23 April 2028	22 February 2022	2 067.19	–	4 628	–	–	4 628
Total SARs				107 951	(7 879)			100 072

(1) The director has 6 months after maturity to exercise the share options.

Notes to the financial statements continued

Year ended 28 February 2023

35. Related party transactions continued

Directors' interest in share incentive scheme – SARs continued

Director	Maturity date[1]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised/cancelled)/ SARs granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
2023								
NS Mashiya	28 March 2022	28 March 2018	881.76	1 187	(1 187)	2 305.00	12 April 2022	–
(direct beneficial)	29 March 2022	1 April 2017	705.93	1 353	(1 353)	2 305.00	12 April 2022	–
		29 March 2019	1 175.01	878	(878)	2 305.00	12 April 2022	–
	1 April 2022	1 April 2016	473.05	1 947	(1 947)	2 305.00	12 April 2022	–
	28 March 2023	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	877	–	–	–	877
	8 April 2023	8 April 2020	973.05	1 147	–	–	–	1 147
	1 October 2023	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	28 March 2024	28 March 2018	881.76	1 187	(1 187)	–	28 February 2023	–
	29 March 2024	29 March 2019	1 175.01	877	(877)	–	28 February 2023	–
	8 April 2024	8 April 2020	973.05	1 147	(1 147)	–	28 February 2023	–
	12 April 2024	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	1 October 2024	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	29 March 2025	29 March 2019	1 175.01	877	(877)	–	28 February 2023	–
	8 April 2025	8 April 2020	973.05	1 147	(1 147)	–	28 February 2023	–
	12 April 2025	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	23 April 2025	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	1 October 2025	1 October 2020	908.58	1 572	(1 572)	–	28 February 2023	–
	8 April 2026	8 April 2020	973.05	1 146	(1 146)	–	28 February 2023	–
	12 April 2026	11 February 2021	1 392.19	1 471	(1 471)	–	28 February 2023	–
	23 April 2026	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	1 October 2026	1 October 2020	908.58	1 571	(1 571)	–	28 February 2023	–
	12 April 2027	11 February 2021	1 392.19	1 470	(1 470)	–	28 February 2023	–
	23 April 2027	22 February 2022	2 067.19	–	–	–	28 February 2023	–
	23 April 2028	22 February 2022	2 067.19	–	–	–	28 February 2023	–
Total SARs				28 480	(23 916)			4 564
GR Hardy[2]	28 September 2023	28 September 2020	911.63	412	–	–	–	412
(direct beneficial)	28 September 2024	28 September 2020	911.63	412	–	–	–	412
	23 April 2025	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2025	1 July 2022	2 106.13	–	413	–	–	413
	28 September 2025	28 September 2020	911.63	411	–	–	–	411
	23 April 2026	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2026	1 July 2022	2 106.13	–	412	–	–	412
	28 September 2026	28 September 2020	911.63	411	–	–	–	411
	23 April 2027	22 February 2022	2 067.19	–	1 134	–	–	1 134
	1 July 2027	1 July 2022	2 106.13	–	412	–	–	412
	23 April 2028	22 February 2022	2 067.19	–	1 133	–	–	1 133
	1 July 2028	1 July 2022	2 106.13	–	412	–	–	412
Total SARs				1 646	6 184			7 830
Total SARs held by directors				204 812	(40 529)			164 283

[1] *The director has 6 months after maturity to exercise the share options.*

[2] *Mr GR Hardy was appointed as a director on 1 July 2022.*

Directors' remuneration

The total share option expense relating to directors amounted to R10 855 243 (2022: R17 772 974) and the SAR income amounted to R24 640 380 (2022: expense of R102 409 945) due to the decrease in the Capitec share price during the current year.

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year at the reporting date
2023						
Executive[1]						
AP du Plessis[2]	5 408	640	–	–	6 048	–
GM Fourie	16 000	920	5 427	–	22 347	3 993
GR Hardy[3]	4 667	46	1 563	–	6 276	1 222
NS Mashiya[4]	6 664	88	–	–	6 752	–
Non-executive						
SL Botha *(chairman)*	–	–	–	4 393	4 393	–
MS du Pré le Roux	–	–	–	580	580	–
SA du Plessis	–	–	–	1 417	1 417	–
CH Fernandez	–	–	–	941	941	–
V Mahlangu	–	–	–	1 268	1 268	–
TE Mashilwane	–	–	–	1 136	1 136	–
DP Meintjes	–	–	–	1 029	1 029	–
PJ Mouton	–	–	–	920	920	–
CA Otto	–	–	–	951	951	–
JP Verster	–	–	–	1 665	1 665	–
Total directors' remuneration	32 739	1 694	6 990	14 300	55 723	5 215

[1] *The executive directors are prescribed officers of the company.*

[2] *Mr AP du Plessis retired on 30 June 2022.*

[3] *Mr GR Hardy was appointed on 1 July 2022.*

[4] *Mr NS Mashiya resigned on 31 March 2023.*

Notes to the financial statements continued
Year ended 28 February 2023

35. Related party transactions continued

Directors' remuneration continued

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year at the reporting date
2022						
Executive(1)						
AP du Plessis	10 780	94	6 049	—	16 923	5 815
GM Fourie	14 667	99	8 313	—	23 079	9 990
NS Mashiya	6 300	75	3 525	—	9 900	2 711
Non-executive						
SL Botha *(chairman)*	—	—	—	3 250	3 250	—
MS du Pré le Roux	—	—	—	549	549	—
SA du Plessis	—	—	—	1 210	1 210	—
CH Fernandez	—	—	—	735	735	—
V Mahlangu	—	—	—	1 199	1 199	—
TE Mashilwane	—	—	—	988	988	—
JD McKenzie(2)	—	—	—	219	219	—
DP Meintjes	—	—	—	950	950	—
PJ Mouton	—	—	—	799	799	—
CA Otto	—	—	—	973	973	—
JP Verster	—	—	—	1 310	1 310	—
Total directors' remuneration	31 747	268	17 887	12 182	62 084	18 516

(1) *The executive directors are prescribed officers of the company.*
(2) *Mr JD McKenzie retired on 28 May 2021.*

Prescribed officers' remuneration(1)

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year at the reporting date
2023					
KE Barker(2)(4)	**2 333**	**34**	**782**	**3 149**	**241**
R Butler	**7 083**	**179**	**3 618**	**10 880**	**939**
W de Bruyn	**8 156**	**99**	**2 764**	**11 019**	**1 793**
KR Kumbier	**6 644**	**381**	**2 261**	**9 286**	**1 291**
HAJ Lourens	**8 875**	**522**	**3 082**	**12 479**	**2 000**
GR Lee(3)	**4 000**	**60**	**1 340**	**5 400**	**734**
F Viviers	**5 183**	**341**	**1 776**	**7 300**	**922**
Total prescribed officers' remuneration	**42 274**	**1 616**	**15 623**	**59 513**	**7 920**
2022					
R Butler	7 500	53	5 542	13 095	3 446
W de Bruyn	7 593	537	4 260	12 390	4 096
KR Kumbier	6 055	284	3 387	9 726	2 606
HAJ Lourens	8 000	56	4 489	12 545	4 315
F Viviers	4 500	243	2 549	7 292	1 961
Total prescribed officers' remuneration	33 648	1 173	20 227	55 048	16 424

(1) *The members of the group EXCO are prescribed officers of the company.*
(2) *Ms KE Barker was appointed on 1 July 2022.*
(3) *Mr GR Lee was appointed on 1 July 2022.*
(4) *Ms KE Barker represents Capitec Life Limited on the group EXCO. The executive employee turnover rate applied on the fair value of options and rights granted during the year is 0% compared to the group executive employee turnover rate of 2.6%.*

The total share option expense relating to the prescribed officers above amounted to R15 684 376 (2022: R32 792 165) and the SARs expense amounted to R16 895 927 (2022: R33 781 977). The expense includes the movement on all tranches.

Financial assistance amounting to Rnil (2022: Rnil) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at the reporting date amounted to R5 022 918 (2022: R2 753 838).

Notes to the financial statements continued

Year ended 28 February 2023

36. Notes to the cash flow statements

36.1 Cash flow from operations

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Net profit before tax and equity accounted earnings	12 101 331	10 898 557	5 483 672	(1 247)
Deduct interest income	(20 783 348)	(17 454 315)	(437)	(479)
Deduct interest on investments at FVTPL	(415 915)	(14 903)	–	–
Add back interest expenses	6 992 691	4 837 898	–	–
Deduct insurance recovery relating to the civil unrest	–	(198 292)	–	–
Deduct dividend income	–	–	(5 483 683)	–
Adjusted for non-cash items				
Movement in provision for credit impairment[6]	2 083 558	(239 180)	–	–
Bad debts written off	6 627 491	6 185 503	–	–
Reversal of impairment of property and plant	–	(4 124)	–	–
Loss due to the civil unrest	–	57 952	–	–
Lease liability remeasurement	(34 667)	(16 193)	–	–
Depreciation	636 130	603 169	–	–
Unrealised forex (gain)/loss	(7 376)	7 114	–	–
Depreciation – right-of-use assets – premises	373 834	397 422	–	–
Amortisation of intangible assets	140 974	223 496	–	–
Loss on disposal of assets	7 071	29 137	–	–
Share-based employee costs – options	165 228	54 272	–	–
Other asset write-offs	–	25 209	–	–
Share-based employee costs – Izindaba Ezinhle Employee Share Scheme – equity-settled	–	515 809	–	–
Other non-cash items	(29 105)	–	–	–
Movements in assets and liabilities				
Loans and advances[1]	(20 304 895)	(15 288 226)	–	–
Financial investments at FVTPL	(240 000)	–	–	–
Other receivables[4]	(3 262 352)	(1 627 706)	(593)	261
Net insurance receivable	(831 436)	309 181	–	–
Derivatives	(20 005)	(41 703)	–	–
Deposits and other wholesale funding[2]	11 254 108	13 814 076	–	–
Trade and other payables[3]	(821 953)	1 749 988	(1 602)	1 821
Movements in employee benefit liabilities	(269 842)	72 718	–	–
Share-based employee costs – SARs and RSP	(51 637)	175 519	–	–
Fair value gains reclassified to profit or loss	10 215	22 819	–	–
Non-cash flow items relating to settlement of share options	–	(61 691)	–	–
Non-cash B-BBEE transaction costs	–	(1 127)	–	–
Cash flow from operations	(6 679 900)	5 032 379	(2 643)	356

Refer to the footnotes on page 277.

R'000	*GROUP 2023*	*GROUP 2022*	*COMPANY 2023*	*COMPANY 2022*
[1] Movement in loans and advances to clients	*(20 304 895)*	*(15 288 226)*	*–*	*–*
Gross loans and advances opening balance	*84 107 924*	*75 026 356*	*–*	*–*
Gross loans and advances closing balance	*(97 814 471)*	*(84 107 924)*	*–*	*–*
Movement in accrued interest	*29 143*	*(21 155)*	*–*	*–*
Bad debts written off	*(6 627 491)*	*(6 185 503)*	*–*	*–*
[2] Deposits and wholesale funding[5]	*11 254 108*	*13 814 076*	*–*	*–*
Movement in deposits	*11 629 971*	*13 864 397*	*–*	*–*
Movement in other wholesale funding	*(375 863)*	*(50 321)*	*–*	*–*
[3] Trade and other payables	*(821 953)*	*1 749 988*	*(1 602)*	*1 821*
Movement in trade and other payables	*(821 953)*	*1 749 988*	*(1 602)*	*1 821*
[4] Other receivables	*(3 262 352)*	*(1 627 706)*	*(593)*	*261*
Opening balance	*3 284 984*	*1 637 278*	*2 134*	*–*
Closing balance	*(6 429 195)*	*(3 284 984)*	*(2 727)*	*–*
Non-cash item	*(118 141)*	*20 000*	*–*	*–*

[5] Relates to deposits and unlisted negotiable instruments and other wholesale funding. Refer to note 17.

[6] ECL – non-loan book is included in the movement in provision for credit impairments.

36.2 Income tax paid

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	301 951	159 520	–	–
Income statement charge	2 491 811	2 407 724	9 195	22
Movement in deferred tax	(331 143)	631 802	–	–
Tax effect on settlement of share options taken to equity	42 402	(52 513)	–	–
Balance at the end of the year	40 701	(301 951)	–	–
Income tax paid	2 545 722	2 844 582	9 195	22

36.3 Proceeds from the disposal of property and equipment

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Disposals of property and equipment at net book value	27 929	13 158	–	–
Loss on the sale of property and plant	(6 828)	(2 348)	–	–
Non-cash items	(4 275)	–	–	–
Disposal of property, plant and equipment per the statement of cash flows	16 826	10 810	–	–

Notes to the financial statements continued
Year ended 28 February 2023

36. Notes to the cash flow statements continued

36.4 Proceeds on the disposal of intangible assets

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Disposals of intangible assets at net book value	243	26 789	—	—
Loss on the sale of intangible assets	(243)	(26 789)	—	—
Disposal of intangible assets per the statement of cash flows	—	—	—	—

36.5 Dividends paid

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Balance at the beginning of the year	8 263	5 552	8 263	5 552
Ordinary dividend (Group: Net of treasury shares)	6 187 142	3 237 556	6 199 732	3 237 556
Preference dividend	4 185	3 207	4 185	3 207
Balance at the end of the year	(10 115)	(8 263)	(12 048)	(8 263)
Dividends paid	6 189 475	3 238 052	6 200 132	3 238 052

36.6 Net debt reconciliation – group loans

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Group loans payable at the beginning of the year	—	—	13 680	16 703
Loans from group companies – granted	—	—	22 187	1 136 077
Loans from group companies – repaid	—	—	(11 462)	(1 139 100)
Other cash flows	—	—	—	—
Group loans payable at the end of the year	—	—	24 405	13 680

36.7 Lease liability cash flow

R'000	GROUP 2023	GROUP 2022
Lease liability cash flow	572 400	534 357
Lease liability opening balance	2 424 694	2 500 977
New leases	427 286	363 646
Terminations	(175 412)	(119 812)
IFRS 16 interest	200 894	214 240
Lease liability closing balance	(2 305 062)	(2 424 694)
Total cash flow lease liability	572 400	534 357
Portion included in operating activities	202 097	214 240
Portion included in financing activities	370 303	320 117

36.8 Realised loss on settlement of employee share options less participants' contributions

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Shares acquired for settlement of options per the cash flow statement	(111 234)	(17 452)	—	—
Strike price of options	78 831	55 884	—	—
Adjusted for non-cash flow items:				
– Net settlement of options	(44 685)	(35 111)	—	—
Realised loss on settlement of employee share options less participants' contributions	(77 088)	3 321	—	—

36.9 Interest received

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Interest income per the income statement	21 199 263	17 454 315	437	479
Adjusted for accrued interest income (non-cash items)				
Investments at amortised cost	(525 589)	(792 964)	—	—
Term deposits	(156 874)	(9 375)	—	—
Loans and advances	(29 143)	21 155	—	—
Financial assets at FVTPL	(49 051)	7 450	—	—
Interest received per the statement of cash flows	20 438 606	16 680 581	437	479

36.10 Interest paid

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Interest expense per the income statement	(6 992 691)	(4 837 898)	—	—
Adjusted for accrued interest expense (non-cash items)				
Deposits	31 061	1 598	—	—
Senior listed bonds	4 730	(14 793)	—	—
Lease liabilities	(1 202)	(1 748)	—	—
Interest paid per the statement of cash flows	(6 958 102)	(4 852 841)	—	—

Notes to the financial statements continued

Year ended 28 February 2023

37. Commitments and contingent liabilities

R'000	GROUP 2023	GROUP 2022	COMPANY 2023	COMPANY 2022
Capital commitments – approved by the board				
Contracted for:				
Property and equipment[2]	672 328	180 622	–	–
Intangible assets	2 451	26 874	–	–
Not contracted for:				–
Property and equipment	1 034 140	785 927	–	–
Intangible assets	206 068	246 893	–	–
Total capital commitments	1 914 987	1 240 316	–	–
Loan commitments – gross of loss allowances[1]	16 103 174	11 482 830	–	–
Retail bank	15 799 468	11 300 483	–	–
Business bank	303 706	182 347	–	–
Guarantees – Business bank	771 397	688 834	–	–
Letters of credit	32 229	12 330	–	–
Total loan commitments, guarantees and letters of credit	16 906 800	12 183 994	–	–
Contingent liabilities				
VAT	–	26 992	–	–

[1] For agreements that contain both a drawn and undrawn component where the group cannot separately identify the ECL on the undrawn component, the ECL on the undrawn component is recognised with the ECL on the loan component. To the extent that the ECLs exceed the gross carrying amount of the loans at a client level, the excess is recognised as a provision in other liabilities in the statement of financial position. The loss allowance on the undrawn loan commitments of clients that have no outstanding balances are also recognised as a provision in other liabilities. Refer to note 18.

[2] Included in this amount is property amounting to R400 million.

38. Borrowing powers

In terms of the memorandum of incorporation of Capitec Bank Holdings Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

These borrowing powers are subject to the limitations of the Banks Act and section 45(3)(a)(ii) of the Companies Act. A special resolution was passed at the AGM on 27 May 2022 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company to the company, on the terms and conditions and for the amounts that the board may determine.

39. Share incentive scheme

39.1 Share incentive trust

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited. The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of Capitec Bank Holdings Limited and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of Capitec Bank Holdings Limited are financed by the relevant subsidiary.

The group allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2022: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2022: 20%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The group offers share options to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 2 to 6 years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

	Weighted average strike price R	Number 2023	Weighted average strike price R	Number 2022
Options issued to employees of the group				
Balance at the beginning of the year	1 007.37	557 498	913.95	551 770
Options granted	2 073.18	99 376	1 413.03	110 994
Options cancelled and/or lapsed	1 155.05	(30 321)	996.64	(20 845)
Options exercised	821.56	(102 285)	689.37	(84 421)
Balance at the end of the year	1 198.90	524 268	1 007.37	557 498
SARs issued to employees of the group				
Balance at the beginning of the year	987.60	557 498	913.95	551 770
SARs granted	2 073.18	99 376	1 369.21	110 994
SARs cancelled and/or lapsed	1 155.05	(30 321)	996.64	(20 845)
SARs exercised	821.56	(102 285)	689.37	(84 421)
Balance at the end of the year	1 179.82	524 268	987.60	557 498

Analysis of outstanding share options by year of maturity	2023 Weighted average strike price R	2023 Number	2022 Weighted average strike price R	2022 Number
Financial year				
2022/2023	–	–	821.56	102 285
2023/2024	934.64	114 695	944.69	122 099
2024/2025	1 031.12	118 598	1 030.67	125 162
2025/2026	1 221.88	119 292	1 045.91	101 304
2026/2027	1 224.96	99 321	1 028.15	80 464
2027/2028	1 772.84	49 018	1 391.36	26 184
2028/2029	2 073.42	23 344	–	–
Total outstanding share options	1 198.90	524 268	1 007.37	557 498

Number	2023	2022
Shares purchased/issued during the year	82 717	84 421
Shares utilised for settlement of options	(75 376)	(84 421)
Shares available for settlement of options	7 341	–
Settled in shares	(75 376)	(84 421)
Options exercised	(75 376)	(84 421)

Notes to the financial statements continued

Year ended 28 February 2023

39. Share incentive scheme continued

39.1 Share incentive trust continued

Analysis of outstanding SARs by year of maturity	2023 Weighted average strike price R	2023 Number	2022 Weighted average strike price R	2022 Number
Financial year				
2022/2023	—	—	821.56	102 285
2023/2024	919.41	114 695	930.49	122 099
2024/2025	1 009.35	118 598	1 009.98	125 162
2025/2026	1 202.04	119 292	1 023.11	101 304
2026/2027	1 203.18	99 321	1 002.52	80 464
2027/2028	1 750.93	49 018	1 340.97	26 184
2028/2029	2 073.42	23 344	—	—
	1 179.82	524 268	987.60	557 498

39.2 Izindaba Ezinhle Employee Share Scheme (prior year)

In terms of the scheme, Capitec Bank Holdings Limited (Capitec) ordinary shares were issued to participating employees.

Capitec Bank Limited (Capitec Bank) had an obligation to pay 50% of the subscription price to Capitec on behalf of the employees, with the remaining balance being funded through loans provided to the participating employees by Capitec. Capitec had an obligation to issue the shares to the employees against the payment received from Capitec Bank. A 5-year trade restriction is imposed in respect of the issued shares. Capitec will retain 50% of the dividends for the purpose of settling the accrued interest payable on the loans and the remaining 50% of the dividends will be paid to the participating employees. Employees do not need to be in the employment of the group on any predetermined dates in future, therefore vesting occurred on the grant date.

The employees will be required to repay the loans and interest thereon at the end of the 5-year period. Capitec's recourse is limited to the number of shares that were issued to the employees in terms of the pledge and session agreement with the employee. The loans to the employees will not be recognised in terms of IFRS 9 *Financial Instruments* as Capitec may not pursue full recourse to the employees in respect of the loans.

	Date awarded	Exercise date	Number of shares
2022			
Shares awarded	22 February 2022	22 February 2027	472 852

Capitec Bank Holdings Limited separate financial statements

Cash in the amount of R491.978 million, received from Capitec Bank on behalf of the employees, was separately recognised in equity in the separate financial statements of Capitec Bank Holdings Limited due to the 5-year trade restriction that was imposed on the shares. The cash was recognised in the statement of cash flows as cash flow from financing activities. The 472 852 shares may be recognised as issued on expiry of the 5-year trade restriction based on the settlement of the outstanding loan amount. The part of the scheme funded through the loans to the employees from Capitec Bank Holdings Limited is accounted for as equity-settled in both the Capitec Bank Limited and Capitec Bank Holdings Limited separate financial statements. The fair value of the equity instruments granted is measured using a Monte Carlo simulation and amounted to R23.831 million.

Capitec Bank Holdings Limited consolidated financial statements

The cash received from Capitec Bank Limited recognised in equity in the Capitec Bank Holdings Limited separate financial statements was eliminated on consolidation to recognise a share option reserve to account for the transaction as equity-settled for the group. The transaction is recognised as equity-settled for the group as Capitec shares were issued to the employees of the group.

The transaction represents an in-substance option for the employees to acquire a variable number of shares in future, therefore a share option reserve was recognised on consolidation. The fair value of the equity instruments granted is measured using a Monte Carlo simulation, an option pricing model which takes into account the market price on grant date, the cost of funding as well as an assumption on the actual number of shares that will be delivered. The fair value on the grant date of R515.809 million is recognised in the income statement as part of employee costs, with a corresponding increase in equity as a share option reserve. As there are no service or performance conditions attached to the scheme, the expense is recognised on the grant date.

The following assumptions were used to measure the fair value at the grant date:

Grant date	22 February 2022
Risk-free rate (%)	4.50
Growth rate (%)[1]	4.50
Expected volatility (%)[1]	30
Dividend forecast[2]	Capitec Bank Holdings Limited 5-year dividend forecast
Dividend yield (%)	1.74
Prime lending rate (%)	7.5
Official rate of interest (%)[3]	5
Capitec Bank Holdings Limited share price at the grant date (rand)	2 081
Loan value per share (rand)	1 041
Estimated future loan value/strike price (rand)	1 214
Total loan value (rand)	491 978 863

(1) The growth rate and expected volatility were determined using the historical share prices of Capitec Bank Holdings Limited. The growth rate is deemed appropriate based on consumer price inflation and the expected volatility excludes the impact of extreme events.

(2) The dividends were determined using the dividend forecast up to the 2027 financial year in conjunction with projected future share prices as at each dividend payment date.

(3) As defined in section 1(1) of the Income Tax Act.

39.3 Co-investment plan share option scheme

Capitec Bank Holdings Limited granted share options directly to the employees of Capitec Bank Limited as consideration for services rendered as part of a bonus arrangement and in an effort to retain the services of specific employees.

The fair value of the share options granted is measured on the grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption of the actual percentage of shares that will be delivered.

The fair value on the grant date will be recognised in the income statement on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

The strike price of the share options reduces by 5% per annum over the vesting period.

The share options will vest in equal tranches of 25% at the end of each employment period as follows:

Tranche	Percentage	Vesting period
1	25	4 years
2	25	6 years
3	25	8 years
4	25	10 years

Notes to the financial statements continued

Year ended 28 February 2023

39. Share incentive scheme continued

39.3 Co-investment plan share option scheme continued

The share-based payment expense was calculated using a Monte Carlo option pricing model, which is reflective of the underlying characteristics of the co-investment plan share option scheme. The fair value on the grant date was recognised in the income statement with a corresponding increase in equity. There are no subsequent measurement considerations as this is an equity-settled shared-based payment transaction.

The following assumptions were used to measure the fair value at the grant date:

Grant date	**20 April 2022**
Risk-free rate (%)	5.77
Growth rate (%)[1]	4.50
Expected volatility (%)[1]	30
Dividend forecast[2]	Capitec Bank Holdings Limited 5-year dividend forecast
Dividend yield (%)	1.61
Volume-weighted average price (VWAP)/strike price (rand)	2 067
Capitec Bank Holdings Limited share price at the grant date (rand)	2 069
Fair value of share options on grant date (rand)	1 420

[1] *The growth rate and expected volatility were determined using the historical share prices of Capitec Bank Holdings Limited. The growth rate is deemed appropriate based on consumer price inflation and the expected volatility excludes the impact of extreme events.*

[2] *The dividends were determined using the dividend forecast up to the 2033 financial year in conjunction with projected future share prices as at each dividend payment date.*

	Date awarded	Exercise date	Grant price R	Number of share options
2023				
Share options awarded	**20 April 2022**	**20 April 2032**	**1 420**	**37 681**

Grant date	**8 April 2021**
2022	
Risk-free rate (%)	4.50
Growth rate (%)[1]	4.50
Expected volatility (%)[1]	30
Dividend forecast[2]	Capitec Bank Holdings Limited 5-year dividend forecast
Dividend yield (%)	1.74
VWAP/strike price (rand)	1 359
Capitec Bank Holdings Limited share price at the grant date (rand)	1 363
Fair value of share options on grant date (rand)	1 829

[1] *The growth rate and expected volatility were determined using the historical share prices of Capitec Bank Holdings Limited. The growth rate is deemed appropriate based on consumer price inflation and the expected volatility excludes the impact of extreme events.*

[2] *The dividends were determined using the dividend forecast up to the 2032 financial year in conjunction with projected future share prices as at each dividend payment date.*

	Date awarded	Exercise date	Grant price R	Number of share options
2022				
Share options awarded	8 April 2021	8 April 2031	1 829	22 769

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. The Longstaff and Schwartz valuation method was used to value the options.

Year granted	Year maturing	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Risk free rate %	Options granted	(Options exercised /cancelled) /Options granted	Closing balance of options outstanding	Fair value on issue date ignoring vesting conditions R'000	Expected vesting proportion[1] %	Portion of the term expired %	Value taking into account expected vesting proportion R'000
2023													
2021/2022	**2025/2026**	**1 106.93**	**1 362.68**	**30**	**1.74**	**4.50**	**5 692**	**(1 003)**	**4 689**	**8 576**	**100.0**	**50.0**	**4 288**
	2027/2028	**999.00**	**1 362.68**	**30**	**1.74**	**4.50**	**5 692**	**(1 003)**	**4 689**	**8 576**	**100.0**	**33.0**	**2 859**
	2029/2030	**901.60**	**1 362.68**	**30**	**1.74**	**4.50**	**5 692**	**(1 003)**	**4 689**	**8 576**	**100.0**	**25.0**	**2 144**
	2031/2032	**813.70**	**1 362.68**	**30**	**1.74**	**4.50**	**5 693**	**(1 005)**	**4 688**	**8 576**	**100.0**	**20.0**	**1 715**
2022/2023	**2026/2027**	**1 683.74**	**2 069.00**	**30**	**1.61**	**5.77**	**9 420**	**(1 265)**	**8 155**	**11 581**	**100.0**	**25.0**	**2 895**
	2028/2029	**1 519.57**	**2 069.00**	**30**	**1.61**	**5.77**	**9 420**	**(1 265)**	**8 155**	**11 581**	**100.0**	**17.0**	**1 930**
	2030/2031	**1 371.42**	**2 069.00**	**30**	**1.61**	**5.77**	**9 420**	**(1 265)**	**8 155**	**11 581**	**100.0**	**13.0**	**1 448**
	2032/2033	**1 237.70**	**2 069.00**	**30**	**1.61**	**5.77**	**9 421**	**(1 264)**	**8 157**	**11 581**	**100.0**	**10.0**	**1 158**
Total							**60 450**	**(9 073)**	**51 377**	**80 628**	**100.0**	**22.9**	**18 437**
2022													
2021/2022	2025/2026	1 106.93	1 362.68	30	1.74	4.50	5 692	–	5 692	10 411	100.0	25.0	2 603
	2027/2028	999.00	1 362.68	30	1.74	4.50	5 692	–	5 692	10 411	100.0	17.0	1 735
	2029/2030	901.60	1 362.68	30	1.74	4.50	5 692	–	5 692	10 411	100.0	13.0	1 301
	2031/2032	813.70	1 362.68	30	1.74	4.50	5 693	–	5 693	10 411	100.0	10.0	1 041
Total							22 769	–	22 769	41 644	100.0	5.0	6 680

[1] *Executive employee turnover of 0% per annum (2022: 0%) was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

39.4 Restricted share plan

The fair value of the debt component of the RSP is remeasured at the reporting date to reflect the fair value of the consideration that will be transferred upon settlement of the liability.

The fair value of the equity component of the RSP is measured at grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption of the actual percentage of shares that will be delivered.

The fair value at the reporting date in relation to both the debt and equity component is recognised in the income statement on a straight-line basis over the vesting period, adjusted to reflect actual levels of vesting, with a corresponding increase/(decrease) in liabilities and equity, respectively.

Both components will vest in equal tranches at the end of each reporting period.

The table below provides detail regarding the results of the valuation of the RSP to which IFRS 2 has been applied.

Restricted share plan	
Debt component	
Fair value on issue date ignoring vesting conditions (R'000)	117 409
Expected vesting proportion (%)[1]	100
Portion of the term expired (%)	60
Value taking into account expected vesting proportion (R'000)	70 861
Equity component	
Fair value on issue date ignoring vesting conditions (R'000)	161 132
Expected vesting proportion (%)[1]	100
Portion of the term expired (%)	61
Value taking into account expected vesting proportion (R'000)	98 774

[1] *Executive employee turnover of 0% per annum was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.'*

Notes to the financial statements continued

Year ended 28 February 2023

40. Share option expense

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. The Black-Scholes option pricing model was used to value the options.

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing[2]	Risk-free rate %	Number of options outstan-ding	Fair value on issue date ignoring vesting conditions R'000	Expected vesting propor-tion[1] %	Value taking into account expected vesting proportion R'000
2023										
2017/2018	705.93	761.37	24.2	1.1	2023/2024	7.5	21 758	6 531	99.8	6 520
2018/2019	881.76	862.83	31.9	1.7	2023/2024	7.0	22 641	6 525	99.8	6 513
2018/2019	—	862.83	31.9	1.7	2024/2025	7.1	22 639	7 161	97.6	6 992
2019/2020	1 175.01	1 349.99	24.6	1.4	2023/2024	7.4	17 728	8 170	99.8	8 155
2019/2020	—	1 349.99	24.6	1.4	2024/2025	7.5	17 727	9 004	97.6	8 790
2019/2020	—	1 349.99	24.6	1.4	2025/2026	7.6	17 723	9 754	95.5	9 314
2019/2020	1 374.59	1 379.00	19.6	1.1	2023/2024	7.2	2 207	776	98.5	765
2019/2020	—	1 379.00	19.6	1.1	2024/2025	7.4	2 207	904	96.3	871
2019/2020	—	1 379.00	19.6	1.1	2025/2026	7.6	2 207	1 022	94.2	963
2020/2021	973.05	1 024.70	38.8	1.5	2023/2024	5.8	27 628	8 918	99.8	8 897
2020/2021	—	1 024.70	38.8	1.5	2024/2025	6.4	27 624	10 337	97.6	10 085
2020/2021	—	1 024.70	38.8	1.5	2025/2026	7.1	27 622	11 630	95.4	11 098
2020/2021	—	1 024.70	38.8	1.5	2026/2027	7.8	27 616	12 834	93.3	11 978
2020/2021	884.83	881.77	41.8	1.8	2023/2024	4.3	678	174	98.8	172
2020/2021	—	881.77	41.8	1.8	2024/2025	4.8	678	202	96.7	195
2020/2021	884.83	881.77	41.8	1.8	2025/2026	5.4	678	227	94.5	214
2020/2021	—	881.77	41.8	1.8	2026/2027	6.0	677	249	92.5	230
2020/2021	1 006.83	1 132.50	42.1	1.4	2023/2024	4.1	4 566	1 770	98.6	1 745
2020/2021	—	1 132.50	42.1	1.4	2024/2025	4.6	4 566	2 005	96.4	1 933
2020/2021	—	1 132.50	42.1	1.4	2025/2026	5.2	4 566	2 216	94.3	2 089
2020/2021	—	1 132.50	42.1	1.4	2026/2027	5.8	4 565	2 412	92.2	2 224
2020/2021	911.63	987.25	41.8	1.6	2023/2024	4.3	17 132	5 494	98.7	5 423
2020/2021	—	987.25	41.8	1.6	2024/2025	4.8	17 117	6 258	96.5	6 041
2020/2021	—	987.25	41.8	1.6	2025/2026	5.4	17 099	6 941	94.4	6 554
2020/2021	—	987.25	41.8	1.6	2026/2027	6.0	17 080	7 557	92.3	6 979
2020/2021	1 383.62	1 430.26	42.3	1.0	2023/2024	4.4	357	165	98.1	162
2020/2021	—	1 430.26	42.3	1.0	2024/2025	4.9	357	191	95.9	183
2020/2021	—	1 430.26	42.3	1.0	2025/2026	5.4	356	214	93.8	201
2020/2021	—	1 430.26	42.3	1.0	2026/2027	5.9	356	235	91.8	215
2021/2022	1 375.55	1 351.15	41.8	1.1	2024/2025	5.0	1 386	573	97.8	560
2021/2022	—	1 351.15	41.8	1.1	2025/2026	5.5	1 385	673	95.6	644
2021/2022	—	1 351.15	41.8	1.1	2026/2027	6.1	1 385	763	93.5	713
2021/2022	—	1 351.15	41.8	1.1	2027/2028	6.6	1 385	843	91.5	772

Refer to the footnotes on page 288.

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing[2]	Risk-free rate %	Number of options outstan-ding	Fair value on issue date ignoring vesting conditions R'000	Expected vesting propor-tion[1] %	Value taking into account expected vesting proportion R'000
2023										
2021/2022	1 392.19	1 405.00	42.2	1.1	2024/2025	4.3	23 341	10 206	97.5	9 955
2021/2022	—	1 405.00	42.2	1.1	2025/2026	4.7	23 337	11 833	95.4	11 289
2021/2022	—	1 405.00	42.2	1.1	2026/2027	5.2	23 333	13 284	93.3	12 394
2021/2022	—	1 405.00	42.2	1.1	2027/2028	5.6	23 329	14 602	91.3	13 325
2021/2022	1 663.60	1 879.85	41.5	2.1	2024/2025	5.1	552	350	96.7	339
2021/2022	—	1 879.85	41.5	2.1	2025/2026	5.6	552	393	94.6	371
2021/2022	—	1 879.85	41.5	2.1	2026/2027	6.0	551	428	92.5	396
2021/2022	—	1 879.85	41.5	2.1	2027/2028	6.4	551	459	90.5	416
2021/2022	1 616.73	1 790.00	41.5	2.6	2024/2025	5.6	404	234	96.5	226
2021/2022	—	1 790.00	41.5	2.6	2025/2026	6.0	404	262	94.4	247
2021/2022	—	1 790.00	41.5	2.6	2026/2027	6.5	403	285	92.3	263
2021/2022	—	1 790.00	41.5	2.6	2027/2028	6.9	403	305	90.3	275
2022/2023	2 067.19	2 096.24	41.4	1.7	2025/2026	6.3	645	429	95.6	410
2022/2023	—	2 096.24	41.4	1.7	2026/2027	6.6	645	493	93.5	461
2022/2023	—	2 096.24	41.4	1.7	2027/2028	7.0	645	548	91.5	502
2022/2023	—	2 096.24	41.4	1.7	2028/2029	7.3	645	596	89.5	534
2022/2023	2 067.19	2 090.49	41.6	1.5	2025/2026	6.4	21 457	14 807	95.3	14 116
2022/2023	—	2 090.49	41.6	1.5	2026/2027	6.7	21 452	16 959	93.2	15 812
2022/2023	—	2 090.49	41.6	1.5	2027/2028	7.0	21 447	18 809	91.2	17 153
2022/2023	—	2 090.49	41.6	1.5	2028/2029	7.3	21 442	20 429	89.2	18 220
2022/2023	2 106.13	1 970.00	41.7	3.0	2025/2026	7.9	1 261	697	94.9	662
2022/2023	—	1 970.00	41.7	3.0	2026/2027	8.2	1 258	805	92.8	747
2022/2023	—	1 970.00	41.7	3.0	2027/2028	8.5	1 258	893	90.8	811
2022/2023	—	1 970.00	41.7	3.0	2028/2029	8.8	1 257	966	88.8	858
Total							524 268	261 800	95.0	247 972
2022										
2016/2017	473.05	573.08	36.1	2.3	2022/2023	7.9	31 919	8 189	100.0	8 189
2016/2017	576.29	555.60	36.2	2.1	2022/2023	8.3	2 603	569	100.0	569
2017/2018	705.93	761.37	24.2	1.1	2022/2023	7.4	23 116	6 302	100.0	6 302
2017/2018	—	761.37	24.2	1.1	2023/2024	7.5	23 111	6 938	100.0	6 938
2018/2019	881.76	862.83	31.9	1.7	2022/2023	6.9	23 830	6 112	100.0	6 112
2018/2019	—	862.83	31.9	1.7	2023/2024	7.0	23 828	6 867	100.0	6 867
2018/2019	—	862.83	31.9	1.7	2024/2025	7.1	23 826	7 537	100.0	7 537
2019/2020	1 175.01	1 349.99	24.6	1.4	2022/2023	7.5	18 609	7 646	100.0	7 646
2019/2020	—	1 349.99	24.6	1.4	2023/2024	7.4	18 605	8 574	100.0	8 574
2019/2020	—	1 349.99	24.6	1.4	2024/2025	7.5	18 604	9 450	100.0	9 450
2019/2020	—	1 349.99	24.6	1.4	2025/2026	7.6	18 600	10 237	100.0	10 237
2019/2020	1 374.59	1 379.00	19.6	1.1	2022/2023	7.0	2 208	643	100.0	643
2019/2020	—	1 379.00	19.6	1.1	2023/2024	7.2	2 207	776	100.0	776
2019/2020	—	1 379.00	19.6	1.1	2024/2025	7.4	2 207	904	100.0	904
2019/2020	—	1 379.00	19.6	1.1	2025/2026	7.6	2 207	1 022	100.0	1 022

Refer to the footnotes on page 288.

Notes to the financial statements continued

Year ended 28 February 2023

40. Share option expense continued

Data utilised in the valuation of options granted continued

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing[2]	Risk-free rate %	Number of options outstanding	Fair value on issue date ignoring vesting conditions R'000	Expected vesting proportion[1] %	Value taking into account expected vesting proportion R'000
2022										
2020/2021	973.05	1 024.70	38.8	1.5	2023/2024	5.8	28 775	9 288	100.0	9 288
2020/2021	–	1 024.70	38.8	1.5	2024/2025	6.4	28 771	10 766	100.0	10 766
2020/2021	–	1 024.70	38.8	1.5	2025/2026	7.1	28 769	12 113	100.0	12 113
2020/2021	–	1 024.70	38.8	1.5	2026/2027	7.8	28 762	13 367	100.0	13 367
2020/2021	884.83	881.77	41.8	1.8	2023/2024	4.3	678	174	100.0	174
2020/2021	–	881.77	41.8	1.8	2024/2025	4.8	678	202	100.0	202
2020/2021	–	881.77	41.8	1.8	2025/2026	5.4	678	227	100.0	227
2020/2021	–	881.77	41.8	1.8	2026/2027	6.0	677	249	100.0	249
2020/2021	908.58	1 041.14	42.1	1.5	2023/2024	4.1	1 572	567	100.0	567
2020/2021	–	1 041.14	42.1	1.5	2024/2025	4.6	1 572	638	100.0	638
2020/2021	–	1 041.14	42.1	1.5	2025/2026	5.2	1 572	703	100.0	703
2020/2021	–	1 041.14	42.1	1.5	2026/2027	5.8	1 571	762	100.0	762
2020/2021	1 006.83	1 132.50	42.1	1.4	2023/2024	4.1	4 566	1 770	100.0	1 770
2020/2021	–	1 132.50	42.1	1.4	2024/2025	4.6	4 566	2 005	100.0	2 005
2020/2021	–	1 132.50	42.1	1.4	2025/2026	5.2	4 566	2 216	100.0	2 216
2020/2021	–	1 132.50	42.1	1.4	2026/2027	5.8	4 565	2 412	100.0	2 412
2020/2021	911.63	987.25	41.8	1.6	2023/2024	4.3	17 444	5 594	100.0	5 594
2020/2021	–	987.25	41.8	1.6	2024/2025	4.8	17 427	6 371	100.0	6 371
2020/2021	–	987.25	41.8	1.6	2025/2026	5.4	17 409	7 067	100.0	7 067
2020/2021	–	987.25	41.8	1.6	2026/2027	6.0	17 390	7 694	100.0	7 694
2020/2021	1 383.62	1 430.26	42.3	1.0	2023/2024	4.4	357	165	100.0	165
2020/2021	–	1 430.26	42.3	1.0	2024/2025	4.9	357	191	100.0	191
2020/2021	–	1 430.26	42.3	1.0	2025/2026	5.4	356	214	100.0	214
2020/2021	–	1 430.26	42.3	1.0	2026/2027	5.9	356	235	100.0	235
2021/2022	1 375.55	1 351.15	41.8	1.1	2024/2025	5.0	1 386	573	100.0	573
2021/2022	–	1 351.15	41.8	1.1	2025/2026	5.5	1 385	673	100.0	673
2021/2022	–	1 351.15	41.8	1.1	2026/2027	6.1	1 385	763	100.0	763
2021/2022	–	1 351.15	41.8	1.1	2027/2028	6.6	1 385	843	100.0	843
2021/2022	1 392.19	1 405.00	42.2	1.1	2024/2025	4.3	24 812	10 849	100.0	10 849
2021/2022	–	1 405.00	42.2	1.1	2025/2026	4.7	24 808	12 579	100.0	12 579
2021/2022	–	1 405.00	42.2	1.1	2026/2027	5.2	24 804	14 121	100.0	14 121
2021/2022	–	1 405.00	42.2	1.1	2027/2028	5.6	24 799	15 523	100.0	15 523
2021/2022	1 663.60	1 879.85	41.5	2.1	2023/2024	5.1	552	350	100.0	350
2021/2022	–	1 879.85	41.5	2.1	2024/2025	5.6	552	393	100.0	393
2021/2022	–	1 879.85	41.5	2.1	2025/2026	6.0	551	428	100.0	428
2021/2022	–	1 879.85	41.5	2.1	2026/2027	6.4	551	459	100.0	459
2021/2022	1 616.73	1 790.00	41.5	2.6	2023/2024	5.6	404	234	100.0	234
2021/2022	–	1 790.00	41.5	2.6	2024/2025	6.0	404	262	100.0	262
2021/2022	–	1 790.00	41.5	2.6	2025/2026	6.5	403	285	100.0	285
2021/2022	–	1 790.00	41.5	2.6	2026/2027	6.9	403	305	100.0	305
Total							557 498	225 396	100.0	225 396

(1) *Executive employee turnover of 2.6% per annum (2022: 0%) was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

(2) *The human resources and remuneration committee (REMCO) approved changes to the performance conditions relating to share options granted in 2019/2020. These performance conditions are that the 3-year average HEPS growth must exceed the 3-year average of CPI plus the percentage growth in GDP plus 4%, and the attained return on equity (ROE) must outperform the 3-year average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The ROE performance consists of 2 tiers. Tier 1 (50% vesting): ROE outperforms 3-year average ROE of the 4 traditional banks by 0%. Tier 2 (full vesting): ROE outperforms 3-year average ROE of the 4 traditional banks by 2%. The assumption that both of the above performance conditions would be met was used to estimate the realisation of these vesting conditions. The 2021 financial year was not considered when determining whether the performance measures were met.*

41. Share appreciation rights

Data utilised in the valuation of SARs granted

The table below provides detail regarding the data used in the valuation of the SARs to which IFRS 2 has been applied. SARs are expected to vest and are re-estimated on an annual basis.[(1)(5)]

Year granted	Strike price[3] R	Year maturing[4]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2023								
2017/2018	705.93	2023/2024	7.3	21 758	22 804	98.7	99.8	22 502
2018/2019	881.76	2023/2024	7.3	22 641	19 778	98.5	99.8	19 475
2018/2019	–	2024/2025	8.1	22 639	20 278	82.0	97.2	16 633
2019/2020	1 175.01	2023/2024	7.3	17 728	10 328	98.0	99.8	10 123
2019/2020	–	2024/2025	8.1	17 727	11 805	78.4	97.2	9 252
2019/2020	–	2025/2026	8.1	17 723	13 020	65.3	94.7	8 506
2019/2020	1 374.59	2023/2024	7.9	2 207	1 056	83.2	98.3	878
2019/2020	–	2024/2025	8.1	2 207	1 309	66.5	95.7	870
2019/2020	–	2025/2026	8.1	2 207	1 474	55.4	93.2	817
2020/2021	973.05	2023/2024	7.3	27 628	21 647	96.4	99.7	20 876
2020/2021	–	2024/2025	8.1	27 624	22 702	72.3	97.1	16 409
2020/2021	–	2025/2026	8.1	27 622	23 767	57.8	94.6	13 745
2020/2021	–	2026/2027	8.2	27 616	24 534	48.2	92.2	11 825
2020/2021	911.63	2023/2024	7.9	17 132	14 641	80.6	98.5	11 806
2020/2021	–	2024/2025	8.1	17 117	15 181	60.4	95.9	9 175
2020/2021	–	2025/2026	8.1	17 099	15 600	48.4	93.5	7 544
2020/2021	–	2026/2027	8.3	17 080	15 887	40.3	91.1	6 403
2020/2021	884.83	2023/2024	7.9	678	595	82.6	98.6	492
2020/2021	–	2024/2025	8.1	678	614	61.9	96.1	380
2020/2021	–	2025/2026	8.1	678	629	49.5	93.6	312
2020/2021	–	2026/2027	8.3	677	639	41.3	91.2	264
2020/2021	1 006.83	2023/2024	7.9	4 566	3 518	78.6	98.3	2 766
2020/2021	–	2024/2025	8.1	4 566	3 745	58.9	95.8	2 207
2020/2021	–	2025/2026	8.1	4 566	3 912	47.2	93.3	1 844
2020/2021	–	2026/2027	8.3	4 565	4 029	39.3	90.9	1 583
2020/2021	1 392.19	2024/2025	8.1	23 341	12 272	64.6	97.1	7 930
2020/2021	–	2025/2026	8.1	23 337	14 485	49.1	94.6	7 114
2020/2021	–	2026/2027	8.2	23 333	16 013	39.6	92.2	6 343
2020/2021	–	2027/2028	8.4	23 329	17 127	33.2	89.8	5 684
2020/2021	439.64	2023/2024	8.0	357	460	71.1	97.8	327
2020/2021	–	2024/2025	8.1	357	450	53.3	95.2	239
2020/2021	–	2025/2026	8.2	356	438	42.6	92.8	187
2020/2021	–	2026/2027	8.3	356	428	35.5	90.4	152
2021/2022	367.71	2024/2025	8.1	1 386	1 871	66.5	97.4	1 245
2021/2022	–	2025/2026	8.1	1 385	1 819	49.9	94.9	908
2021/2022	–	2026/2027	8.2	1 385	1 769	39.9	92.5	706
2021/2022	–	2027/2028	8.4	1 385	1 721	33.3	90.1	572
2021/2022	1 663.60	2024/2025	8.1	552	239	49.7	96.1	119
2021/2022	–	2025/2026	8.1	552	295	37.3	93.7	110
2021/2022	–	2026/2027	8.3	551	335	29.8	91.2	100
2021/2022	–	2027/2028	8.5	551	365	24.9	88.9	91
2021/2022	1 616.73	2024/2025	8.1	404	187	47.0	95.9	88
2021/2022	–	2025/2026	8.1	404	226	35.2	93.5	80
2021/2022	–	2026/2027	8.3	403	253	28.2	91.0	71
2021/2022	–	2027/2028	8.5	403	274	23.5	88.7	64
2021/2022	2 067.19	2025/2026	8.1	21 457	7 819	32.1	94.5	2 509
2021/2022	–	2026/2027	8.2	21 452	9 857	24.4	92.1	2 404
2021/2022	–	2027/2028	8.4	21 447	11 428	19.7	89.7	2 248
2021/2022	–	2028/2029	8.6	21 442	12 698	16.5	87.4	2 092

Refer to the footnotes on page 291.

Notes to the financial statements continued

Year ended 28 February 2023

41. Share appreciation rights continued

Data utilised in the valuation of SARs granted continued

Year granted	Strike price[3] R	Year maturing[4]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2023								
2022/2023	2 067.19	2025/2026	8.1	645	225	33.2	94.9	75
2022/2023	–	2026/2027	8.2	645	289	24.9	92.5	72
2022/2023	–	2027/2028	8.4	645	338	19.9	90.1	67
2022/2023	–	2028/2029	8.6	645	378	16.6	87.7	63
2022/2023	2 106.13	2025/2026	8.1	1 261	471	22.1	94.1	104
2022/2023	–	2026/2027	8.2	1 258	585	16.6	91.6	108
2022/2023	–	2027/2028	8.4	1 258	674	13.3	89.3	89
2022/2023	–	2028/2029	8.7	1 257	747	11.0	87.0	82
Total				524 268	390 028	61.2	93.9	238 730
2022								
2016/2017	473.05	2022/2023	3.9	31 919	51 061	98.5	100.0	50 315
2016/2017	576.29	2022/2023	4.3	2 603	3 889	94.6	100.0	3 678
2017/2018	705.93	2022/2023	3.9	23 116	31 615	98.4	100.0	31 112
2017/2018	–	2023/2024	5.2	23 111	31 615	82.0	100.0	25 922
2018/2019	881.76	2022/2023	3.9	23 830	28 415	98.1	100.0	27 870
2018/2019	–	2023/2024	5.2	23 828	28 703	78.5	100.0	22 526
2018/2019	–	2024/2025	5.9	23 826	29 441	65.4	100.0	19 247
2019/2020	1 175.01	2022/2023	3.9	18 609	16 749	97.4	100.0	16 305
2019/2020	–	2023/2024	5.2	18 605	17 607	73.0	100.0	12 859
2019/2020	–	2024/2025	5.9	18 604	18 905	58.4	100.0	11 041
2019/2020	–	2025/2026	6.3	18 600	20 052	48.7	100.0	9 761
2019/2020	1 374.59	2022/2023	4.7	2 208	1 643	77.6	100.0	1 274
2019/2020	–	2023/2024	5.6	2 207	1 868	58.2	100.0	1 087
2019/2020	–	2024/2025	6.1	2 207	2 059	46.5	100.0	958
2019/2020	–	2025/2026	6.5	2 207	2 217	38.8	100.0	860
2020/2021	973.05	2023/2024	5.2	28 775	32 303	63.1	100.0	20 385
2020/2021	–	2024/2025	5.9	28 771	33 526	47.3	100.0	15 857
2020/2021	–	2025/2026	6.3	28 769	34 727	37.8	100.0	13 141
2020/2021	–	2026/2027	6.6	28 762	35 796	31.5	100.0	11 289
2020/2021	908.58	2023/2024	5.6	1 572	1 881	47.0	100.0	885
2020/2021	–	2024/2025	6.1	1 572	1 938	35.2	100.0	683
2020/2021	–	2025/2026	6.5	1 572	1 991	28.2	100.0	562
2020/2021	–	2026/2027	6.8	1 571	2 038	23.5	100.0	479
2020/2021	911.63	2023/2024	5.6	17 444	20 827	47.3	100.0	9 852
2020/2021	–	2024/2025	6.1	17 427	21 440	35.5	100.0	7 602
2020/2021	–	2025/2026	6.5	17 409	22 014	28.4	100.0	6 245
2020/2021	–	2026/2027	6.8	17 390	22 528	23.6	100.0	5 326
2020/2021	884.83	2023/2024	5.6	678	824	49.2	100.0	406
2020/2021	–	2024/2025	6.1	678	846	36.9	100.0	312
2020/2021	–	2025/2026	6.5	678	868	29.5	100.0	256
2020/2021	–	2026/2027	6.8	677	887	24.6	100.0	218
2020/2021	1 006.83	2023/2024	5.6	4 566	5 100	45.3	100.0	2 310
2020/2021	–	2024/2025	6.1	4 566	5 315	33.9	100.0	1 805
2020/2021	–	2025/2026	6.5	4 566	5 510	27.2	100.0	1 497
2020/2021	–	2026/2027	6.8	4 565	5 680	22.6	100.0	1 286
2020/2021	1 392.19	2024/2025	5.9	24 812	21 753	33.0	100.0	7 188
2020/2021	–	2025/2026	6.3	24 808	23 751	25.1	100.0	5 965
2020/2021	–	2026/2027	6.6	24 804	25 420	20.3	100.0	5 149
2020/2021	–	2027/2028	7.0	24 799	26 853	17.0	100.0	4 557
2020/2021	439.64	2023/2024	5.8	357	575	37.7	100.0	217
2020/2021	–	2024/2025	6.2	357	573	28.3	100.0	162
2020/2021	–	2025/2026	6.6	356	569	22.6	100.0	129
2020/2021	–	2026/2027	6.9	356	567	18.8	100.0	107
2022								
2021/2022	367.71	2024/2025	5.9	1 386	2 322	33.2	100.0	771
2021/2022	–	2025/2026	6.3	1 385	2 303	24.9	100.0	574
2021/2022	–	2026/2027	6.6	1 385	2 287	19.9	100.0	456
2021/2022	–	2027/2028	7.0	1 385	2 273	16.6	100.0	378
2021/2022	1 663.60	2024/2025	6.1	552	423	16.4	100.0	69
2021/2022	–	2025/2026	6.5	552	474	12.3	100.0	58
2021/2022	–	2026/2027	6.8	551	516	9.9	100.0	51
2021/2022	–	2027/2028	7.1	551	552	8.2	100.0	45
2021/2022	1 616.73	2024/2025	6.1	404	322	13.7	100.0	44
2021/2022	–	2025/2026	6.5	404	358	10.3	100.0	37
2021/2022	–	2026/2027	6.8	403	387	8.2	100.0	32
2021/2022	–	2027/2028	7.1	403	412	6.8	100.0	28
Total				557 498	654 568	55.2	100.0	361 228

Refer to the footnotes on page 291.

(1) *All rights were valued using the Black-Scholes model and the following variables:*

Dividend yield	*1.62% (2022: 1.74%)*
Volatility[5]	*41.55% (2022: 41.44%)*
Ex-dividend share price	*R1 754.51 (2022: R2 039.45)*

(2) *Executive employee turnover of 2.6% per annum (2022: 0%) was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

(3) *As from the 2016 financial year: SARs are granted at a strike price equal to the 30-day weighted average share price up to and including the day before the resolution granting the respective SARs was passed. There is a fixed ratio between the number of SARs and share options granted.*

(4) *The REMCO approved changes to the performance conditions relating to share options granted in 2019/2020. These performance conditions are that the 3-year average HEPS growth must exceed the 3-year average of CPI plus the percentage growth in GDP plus 4%, and the attained ROE must outperform the 3-year average ROE of the 4 traditional banks in South Africa . Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The ROE performance consists of 2 tiers. Tier 1 (50% vesting): ROE outperforms 3-year average ROE of the 4 traditional banks by 0%. Tier 2 (full vesting): ROE outperforms 3-year average ROE of the 4 traditional banks by 2%. The assumption that both of the above performance conditions would be met was used to estimate the realisation of these vesting conditions. The 2021 financial year was not considered when determining whether the performance measures were met.*

(5) *The expected price volatility is based on an annualised volatility.*

Notes to the financial statements continued

Year ended 28 February 2023

42. Derivative financial instruments

R'000	Fair values Assets	Liabilities
2023		
Interest rate swaps	**2 087**	**—**
Forward foreign exchange contracts	**12 522**	**23 435**
Forward currency swap contracts	**18 946**	**248**
Derivative financial instruments	**33 555**	**23 683**
2022		
Interest rate swaps	—	18 577
Forward foreign exchange contracts	8 614	8 513
Forward currency swap contracts	5 972	6 758
Derivative financial instruments	14 586	33 848

Interest rate swaps designated as cash flow hedges

R'000	Notional	Fair values Assets	Liabilities
2023			
Interest rate swaps	**500 000**	**2 087**	**—**
Total interest rate swaps	**500 000**	**2 087**	**—**
2022			
Interest rate swaps	500 000	—	18 577
Total interest rate swaps	500 000	—	18 577

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
2023					
Discounted swap cash flows	**—**	**(83)**	**1 576**	**594**	**2 087**
Total interest rate swaps	**—**	**(83)**	**1 576**	**594**	**2 087**
2022					
Discounted swap cash flows	—	4 233	8 288	6 056	18 577
Total interest rate swaps	—	4 233	8 288	6 056	18 577

Forward foreign exchange contracts and forward currency swap contracts

R'000	Notional Foreign	Notional R	Fair values Assets	Fair values Liabilities
2023				
Forward foreign exchange contracts – US dollar	**28 551**	**505 432**	**8 549**	**12 262**
Forward foreign exchange contracts – euro	**12 570**	**236 557**	**1 893**	**9 044**
Forward foreign exchange contracts – pound sterling	**2 975**	**63 291**	**1 678**	**1 470**
Forward foreign exchange contracts – other	**24 240**	**28 162**	**402**	**659**
Total forward foreign exchange contracts		**833 442**	**12 522**	**23 435**
Forward currency swap contracts – US dollar	**11 850**	**208 654**	**8 530**	**248**
Forward currency swap contracts – euro	**9 800**	**183 548**	**9 484**	**—**
Forward currency swap contracts – pound sterling	**500**	**10 198**	**932**	**—**
Forward currency swap contracts – other	**—**	**—**	**—**	**—**
Total forward currency swap contracts		**402 400**	**18 946**	**248**
Derivative financial instruments		**1 235 842**	**31 468**	**23 683**
2022				
Forward foreign exchange contracts – US dollar	47 245	737 783	4 096	5 912
Forward foreign exchange contracts – euro	23 026	405 396	3 914	1 798
Forward foreign exchange contracts – pound sterling	2 784	58 586	206	485
Forward foreign exchange contracts – other	93 090	32 730	398	318
Total forward foreign exchange contracts		1 234 495	8 614	8 513
Forward currency swap contracts – US dollar	39 100	607 491	4 341	3 691
Forward currency swap contracts – euro	18 231	320 129	1 420	3 056
Forward currency swap contracts – pound sterling	1 399	29 046	180	11
Forward currency swap contracts – other	15 747	4 025	31	—
Total forward currency swap contracts		960 691	5 972	6 758
Derivative financial instruments		2 195 186	14 586	15 271

R'000	2023	2022
Derivative asset		
Current portion	**30 205**	14 586
Non-current portion	**1 263**	—
Total foreign currency exchange contracts and swap contracts	**31 468**	14 586
Derivative liability		
Current portion	**23 665**	15 268
Non-current portion	**18**	3
Total foreign currency exchange contracts and swap contracts	**23 683**	15 271

Notes to the financial statements continued

Year ended 28 February 2023

42. Derivative financial instruments continued

Interest rate swaps designated as cash flow hedges

Gains and losses recognised in comprehensive income (note 33.6) on swap agreements will be continuously released to the income statement in line with the interest expense movement on the underlying hedged items.

The forecast cash flows presented show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates. The hedged items comprise variable-rate bonds and negotiable instruments detailed in note 18. To ensure hedge effectiveness, the variable-rate cash flows on the hedged items are matched with variable-rate interest rate swap cash flows (hedging instruments) by entering into swaps where amounts, interest rates and maturities of the swaps exactly match the hedged items.

As at 28 February 2023, the fixed interest rate was 7.5% (2022: 7.5%) and the floating rate was based on the forecast 3-month JIBAR as at 28 February 2023.

The fair value adjustment transferred to the income statement amounted to R10.2 million (2022: R22.8 million) and is included in interest expense. In 2022 and 2023, there were no transactions for which cash flow hedge accounting had to be discontinued due to highly probable cash flow no longer expected to occur.

Forward foreign exchange contracts

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions, and were entered into to match corresponding expected future transactions.

43. Losses due to the destruction of assets in the civil unrest (prior period)

Civil unrest occurred in the KwaZulu-Natal and Gauteng provinces of South Africa during the latter part of July 2021 resulting in the destruction of equipment, cash losses and additional operating expenses that had to be incurred to continue branch operations in these provinces. The group had short-term insurance cover to reduce the risks of civil unrest from Sasria SOC Limited.

Cash losses of R39.7 million incurred were recognised in operating expenses. Compensation received from Sasria SOC Limited in the prior year for the losses amounted to R37.5 million and was recognised in other income.

The destruction of equipment resulted in the derecognition of the assets as it was not probable that future economic benefits from the destroyed equipment would flow to the group. A loss of R57.9 million was recognised in other expenses. Compensation received from Sasria SOC Limited in the prior year for the destruction of equipment at replacement value amounted to R198.2 million and was recognised in other income. No impairment losses in terms of IAS 36 *Impairment of Assets* were recognised in the income statement.

Compensation of R13.9 million was received in the prior year for additional operating expenses that were incurred as a result of the civil unrest which amounted to R9 million.

The civil unrest had no impact on the ECL that was recognised for loans and advances in terms of IFRS 9 *Financial Instruments.*

44. Transfer of shareholding in cell captives to Capitec Ins Proprietary Limited (prior period)

Capitec Bank Limited transferred its shareholding in the insurance cell captive arrangements with Centriq Life Insurance Company Limited and Guardrisk Life Limited to Capitec Ins Proprietary Limited, as recommended by the PA, as it is considered good governance for the insurance operations of the group to be held outside of the banking operations to keep the risk, capital management and regulation of the banking and insurance operations separate.

The cell captive arrangements allowed Capitec Bank Limited to purchase non-convertible preference shares in the registered insurance companies, namely Centriq Life Insurance Company Limited and Guardrisk Life Limited, which undertake the professional insurance management of the cell, including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions were governed by the shareholders' agreement.

Capitec Ins Proprietary Limited obtained the shareholding in the cells at their carrying amounts of R1 223 million effective 31 March 2021. Capitec Bank Limited transferred the investments at their carrying amounts as the bank was exempted from section 3A(1) of the General Code of Conduct for Authorised Financial Services Providers and Representatives. The exemption to transfer the interests at their carrying amounts was granted to Capitec Bank Limited by the Deputy Commissioner of the Financial Sector Conduct Authority as the interests were transferred to a company within the group.

Capitec Ins Proprietary Limited, as the new shareholder of the cells, participates in the operating results of the cells as an attribution of profit. Due to the nature of the insurance activities conducted, insurance activities are considered to be a separate operating segment. Refer to note 32 in the notes to the financial statements for the segmental report.

Capitec Bank Holdings Limited will hold the investment in Capitec Ins Proprietary Limited. Capitec Bank Limited declared and paid a distribution of R108 million, equal to the capital that the bank invested in the cells, to Capitec Bank Holdings Limited, to enable the company to capitalise Capitec Ins Proprietary Limited. Capitec Bank Limited retains sufficient capital, which comprises shareholders' equity, to fund the strategic objectives of the group, provide an adequate return for shareholders and benefits for other various stakeholders as part of the bank's overall capital management objectives. The dividend was not intended to be a return of the invested capital of Capitec Bank Holdings Limited.

Capitec Bank Limited provides loan funding to Capitec Bank Holdings Limited, as the company's holding company, as the need would arise in the normal course of business. Capitec Bank Limited provided loan funding of R1 115 million to Capitec Bank Holdings Limited to enable the company to provide loan funding of R1 115 million to Capitec Ins Proprietary Limited as its wholly-owned subsidiary. The loan funding was provided to Capitec Ins Proprietary Limited to enable the company to pay Capitec Bank Limited for the interests in the cell captives purchased.

Capitec Bank Holdings Limited is, as part of conducting the business of the group, required to provide financial assistance to group companies as part of its operations in the form of loan funding or general financial assistance as contemplated in section 45 of the Companies Act.

45. Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Statutory information

	2023 Shares held Number	2023 Shareholding %	2022 Shares held Number	2022 Shareholding %
Beneficial owners with interest of 5% or more in the company's ordinary shares[1]				
Government Employees Pension Fund	**18 287 261**	**15.75**	15 766 131	13.58
MS duP le Roux	**13 190 043**	**11.36**	13 190 043	11.36
Kalander Trust and its subsidiaries[2]	**7 483 014**	**6.45**	7 483 014	6.45
Fynbos Trust and its subsidiaries	**5 675 753**	**4.89**	5 675 753	4.89
Related party	**31 276**	**0.03**	31 276	0.03
Lebashe Investment Group Proprietary Limited	**8 409 802**	**7.24**	8 409 802	7.24
JP Morgan Chase & Co[3]	**6 048 802**	**5.21**	6 108 348	5.26
JF Mouton Familie Trust and its subsidiaries	**5 917 727**	**5.10**	5 917 727	5.10
B-BBEE shareholding				
Shareholder				
Lebashe Investment Group Proprietary Limited	**8 409 802**	**7.24**	8 409 802	7.24
Lebashe Investment Group Proprietary Limited	**5 284 735**	**4.55**	5 284 735	4.55
K2017134938 (South Africa) Proprietary Limited	**3 125 067**	**2.69**	3 125 067	2.69
Izindaba Ezinhle Employee Share Scheme[4]	**429 299**	**0.37**	429 077	0.37
CB Employee Holdings Proprietary Limited	**235 763**	**0.20**	235 763	0.20
NS Mashiya (director)[5]	**23 173**	**0.02**	15 774	0.01
Total B-BBEE shareholding	**9 098 037**	**7.84**	9 090 416	7.82
Shareholding by executive management excluding directors of the company and any subsidiaries[6]				
Shareholder				
HAJ Lourens	**492 738**	**0.42**	502 384	0.43
W de Bruyn	**100 000**	**0.09**	95 338	0.08
F Viviers	**14 951**	**0.01**	12 750	0.01
KR Kumbier	**9 354**	**0.01**	7 543	0.01
GR Lee	**3 819**	**—**	2 755	—
R Butler	**1 064**	**—**	—	—
Total executive management shareholding	**621 926**	**0.53**	620 770	0.53

[1] The Capital Group Companies Inc advised, in the prescribed manner that they acquired a beneficial interest in Capitec on 13 March 2023, equal to 5.0071% (5,813,235 Capitec shares). The shares are owned by accounts under the discretionary investment management of one or more of the investment management companies affiliated with The Captal Group Companies Inc.
[2] Kalander Trust's indirect beneficial ownership is primarily held through Kalander Sekuriteit Proprietary Limited that holds 5.57% in Capitec.
[3] As announced on SENS on 7 February 2023.
[4] Shares with a 5-year trade restriction. Refer to note 39.2. A total of 91% of the shares were awarded to employees that meet B-BBEE requirements.
[5] Mr NS Mashiya resigned effective 31 March 2023.
[6] Executive directors' shareholdings are presented in the related party note. Refer to note 35.

Analysis of shareholders holding ordinary shares as at 28 February 2023

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	45 981	95.02	3 343 495	2.87
1 001 – 10 000	1 754	3.62	5 441 779	4.69
10 001 – 100 000	518	1.07	15 659 265	13.49
100 001 and over	142	0.29	91 655 304	78.95
Total shareholding	**48 395**	**100.00**	**116 099 843**	**100.00**
Shareholder spread				
Public shareholders	**37 803**	**78.13**	**90 408 639**	**77.87**
Holdings less than 5%	37 802	78.13	72 121 378	62.12
Holdings of 5% or more	1	—	18 287 261	15.75
Non-public shareholders excluding directors and their associates	**10 560**	**21.81**	**4 691 380**	**4.05**
Holdings of 5% or less	10 560	21.81	4 691 380	4.05
Trustees of the Capitec Bank Holdings Share Trust	1	—	170 522	0.15
Trustees of the Capitec Bank Group Employee Empowerment Trust	1	—	235 763	0.20
Prescribed officers of the company excluding directors of the company or any of its subsidiaries	6	0.01	621 926	0.54
Holdings of senior managers under the RSP	108	0.22	64 908	0.06
Izindaba Ezinhle Employee Share Scheme	10 443	21.58	473 194	0.41
K2017134938 (South Africa) Proprietary Limited	1	—	3 125 067	2.69
There is no non-public shareholder, excluding directors and their associates, that holds 5% or more	—	—	—	—
Directors (refer to page 267 for details)	**32**	**0.06**	**20 999 824**	**18.08**
Directors of the company or any subsidiaries	6	0.01	26 936	0.02
Associates of directors of the company or any of its subsidiaries	26	0.05	20 972 888	18.06
Total shareholding	**48 395**	**100.00**	**116 099 843**	**100.00**

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	2 386	95.13	68 394	12.62
1 001 – 10 000	114	4.55	331 679	61.19
10 001 – 100 000	8	0.32	141 940	26.19
Total preference shares held	**2 508**	**100.00**	**542 013**	**100.00**
Shareholder spread				
Public shareholders	**2 508**	**100.00**	**542 013**	**100.00**
Holdings less than 5%	2 507	99.96	512 013	94.47
Holdings of 5% and more	1	—	30 000	5.53
Non-public shareholders	**—**	**—**	**—**	**—**
There are no non-public shareholders or directors or their associates that hold preference shares.	—	—	—	—
Total preference shares held	**2 508**	**100.00**	**542 013**	**100.00**

Abbreviations and acronyms

AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
ARCMC	Audit, risk and capital management committee
AT1	Additional tier 1
ATM	Automated teller machine
Avafin	Avafin Holdings Limited
AWS	Amazon Web Services
Banks Act	Banks Act, Act 94 of 1990
BANKSETA	Banking Sector Education and Training Authority
B-BBEE	Broad-based black economic empowerment
BCBS	Basel Committee on Banking Supervision
BCC	Business bank credit committee
BER	Bureau for Economic Research
Capitec	Capitec Bank Holdings Limited
Capitec Bank	Capitec Bank Limited
Capitec Ins	Capitec Ins. Proprietary Limited
Capitec Life	Capitec Life Limited
CAPM	Capital asset pricing model
CAR	Capital adequacy ratio
CBCC	Capitec Business credit committee
CCF	Credit conversion factors
CCMR	National Credit Regulator's Consumer Credit Market Report
CEO	Chief executive officer
CEO values	The values that govern the behaviour of our employees are: client first; energy; and ownership
CET1	Common equity tier 1
CFO	Chief financial officer
CGU	Cash-generating unit
CIS	Collective investment schemes
CLR	Credit loss recovery
CNR	Coin and note recyclers
CODM	Chief operating decision-maker
COE	Cost of equity
Companies Act	Companies Act of South Africa, Act 71 of 2008
COVID-19	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
CPI	Consumer Price Index
Cream Finance	Cream Finance Holdings Limited
CRM	Credit risk mitigation
CSI	Corporate social investment
DAC	Directors' affairs committee
Data Steerco	Data steering committee
DBE	Department of Basic Education
DCF	Discounted cash flow
Deloitte	Deloitte & Touche
DMTN	Domestic medium-term note
DNR	Dual note recycler
D-SIB	Domestic systemically important bank
EAD	Exposure at default
ECL	Expected credit loss
EDC	External debt collector
EMS	Economic and management sciences
ERM	Enterprise risk management
ESG	Environmental, social and governance
EUR	Euro
EXCO	Executive management committee
FLI SICR	Forward-looking information significant increase in credit risk
FRA	Full retrospective approach
FSCA	Financial Sector Conduct Authority
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
GHG	Greenhouse gas
GMM	General Measurement Model
GRP	Guaranteed package, excluding risk benefits
HEPS	Headline earnings per share
HR	Human resources
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	Incurred but not yet reported
IBOR	Interbank Offered Rates
ICAAP	Internal capital adequacy assessment process
ICR	Idiosyncratic capital requirement
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
Income Tax Act	Income Tax Act, Act 58 of 1962
IoDSA	Institute of Directors South Africa
IRBA Code	Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors
ISAs	International Standards on Auditing
ISF	Information Security Forum
ISMS	Information security management system
ISO	International Organisation for Standardisation
IT	Information technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange Limited
JSE IRC	The Johannesburg Stock Exchange's Interest Rate and Currency market
kg	kilogramme
King IV™	King IV Report on Corporate Governance for South Africa, 2016™
KPI	Key performance indicator
KRI	Key risk indicator
kWp	Kilowatts peak
LCR	Liquidity coverage ratio
LGD	Loss given default
LTI	Long-term incentive
m^2	Square metre
Mercantile	Mercantile Bank Limited (name changed to Mer Pastcomp Limited in January 2021)
Moody's	Moody's Investors Services
MOS	Management operating system
MRA	Modified retrospective
MSR	Minimum shareholding requirements
MWh	Megawatt hour
NAV	Net asset value
NCA	National Credit Act, Act 34 of 2005
NCR	National Credit Regulator
NQF	National Qualifcations Framework
NSFR	Net stable funding ratio
OHS	Occupational health and safety
PA	Prudential Authority
PD	Probability of default
PIN	Personal identification number
POS	Point-of-sale
Primary banking client	When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries
PwC	PricewaterhouseCoopers Inc.
QR	Quick response
Quality client	Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3-month period
RCC	Retail bank credit committee
RCDR	Retail call deposit limit ratio
RCMC	Risk and capital management committee
RCSA	Risk control self-assessment
RDARR	Risk data aggregation and risk reporting
REMCO	Human resources and remuneration committee
Remote banking	Remote banking refers to both banking app and USSD transactions
RISCO	Risk committee
ROE	Return on equity
RSP	Restricted share plan
RWA	Risk-weighted assets
SAICA	South African Institute of Chartered Accountants
SAP	Standard of Actuarial Practice
SARA	South African Reward Association
SARB	South African Reserve Bank
SARs	Share appreciation rights
SBBI®	Stocks, Bonds, Bills and inflation
SESCO	Social, ethics and sustainability committee
SENS	Stock Exchange News Service
SICR	Significant increase in credit risk
SIFI	Systemically important financial institution
SIM	Subscriber Identity Module
SMEs	Small and medium-sized enterprises
SMS	Short Message Service
SPPI	Solely payments of principal and interest
STI	Short-term incentive
T1	Tier 1
T2	Tier 2
TCF	Treating Customers Fairly
TCFD	Task Force on Climate-related Financial Disclosures
tCO_2e	Tonnes of carbon dioxide equivalent
TGP	Total guaranteed pay
the group	Capitec Bank Holdings Limited and subsidiaries
TR	Total remuneration
TREC	Thursday Retail bank executive credit meeting
UN SDGs	United Nations Sustainable Development Goals
USD	US dollar
USSD	Unstructured Supplementary Service Data
VAT	Value added tax
VWAP	Volume-weighted average price
ZARONIA	South African Rand Overnight Index Average
ZASFR	South African Secured Overnight Financing Rate

Shareholders' calendar

Financial year-end	28 February 2023
Profit announcement	18 April 2023
Integrated annual report	18 April 2023
AGM	26 May 2023
Interim report	September 2023

Contact 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

Directors
SL Botha *(chairman)*
GM Fourie *(CEO)*[1]
Z Bulbulia (appointed on 28 March 2023)
AP du Plessis *(CFO)*[1] (retired on 30 June 2022)
SA du Plessis
CH Fernandez
GR Hardy *(CFO)*[1] (appointed on 1 July 2022)
MS du Pré le Roux
V Mahlangu
TE Mashilwane
NS Mashiya (*executive: risk management*)
(resigned on 31 March 2023)
DP Meintjes
PJ Mouton
CA Otto
JP Verster

[1] *Executive*

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
Private Bag X9000, Saxonwold, 2132

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

Website
www.capitecbank.co.za

Enquiries
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