Unaudited financial results
for the 6 months ended 31 August 2022

CAPITEC

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

Highlights

Headline earnings per share
+17% to
4 034 cents

Headline earnings
+17% to
R4.7 billion

Interim dividend per ordinary share
1 400 cents

Deposits
+9% to
R138.9 billion

Return on equity
26%

Capital adequacy ratio
35%

Retail clients using digital channels
+21% to
10.8 million

Active clients
+13% to
19.0 million

Key performance indicators

		6 months ended August 2022	2021	August 2022/2021* %	Year ended February 2022
Profitability					
Interest income on loans	R'm	**7 432**	6 572	13	13 247
Interest income on investments	R'm	**2 502**	1 908	31	4 207
Total interest income	R'm	**9 934**	8 480	17	17 454
Net loan fee income	R'm	**522**	468	12	951
Net credit life insurance income	R'm	**912**	571	60	1 540
Total lending, investment and insurance income less loan fee expense	R'm	**11 368**	9 519	19	19 945
Interest expense	R'm	**(3 071)**	(2 317)	33	(4 838)
Net lending, investment and insurance income	R'm	**8 297**	7 202	15	15 107
Net transaction income	R'm	**5 559**	5 150	8	10 515
Net foreign currency income	R'm	**78**	73	7	144
Funeral plan income	R'm	**629**	366	72	906
Other income	R'm	**15**	24	(38)	290
Income from operations	R'm	**14 578**	12 815	14	26 962
Credit impairments	R'm	**(2 939)**	(2 068)	42	(3 508)
Net income	R'm	**11 639**	10 747	8	23 454
Operating expenses	R'm	**(5 777)**	(5 716)	1	(12 555)
Share of net profit of associates and joint ventures	R'm	**32**	11	>100	36
Operating profit before tax	R'm	**5 894**	5 042	17	10 935
Income tax expense	R'm	**(1 226)**	(1 124)	9	(2 408)
Profit after tax	R'm	**4 668**	3 918	19	8 527
Preference dividend	R'm	**(2)**	(2)		(3)
Discount on repurchase of preference shares	R'm	**—**	—		(1)
Earnings attributable to ordinary shareholders					
Basic	R'm	**4 666**	3 916	19	8 523
Headline	R'm	**4 665**	3 987	17	8 440
Net transaction, net foreign currency and funeral plan income to net income	%	**54**	52		49
Net transaction, net foreign currency and funeral plan income to operating expenses	%	**108**	98		92
Cost-to-income ratio	%	**40**	45		47
Return on ordinary shareholders' equity	%	**26**	27		26
Earnings per share					
Attributable	cents	**4 035**	3 387	19	7 371
Headline	cents	**4 034**	3 447	17	7 300
Number of shares for calculation	'000	**115 627**	115 627		115 627
Diluted attributable	cents	**4 025**	3 383	19	7 360
Diluted headline	cents	**4 024**	3 444	17	7 289
Number of shares for calculation	'000	**115 934**	115 800		115 800
Dividends per ordinary share					
Interim	cents	**1 400**	1 200	17	1 200
Final	cents				2 440
Total	cents	**1 400**	1 200	17	3 640
Number of shares for calculation	'000	**116 100**	115 627		116 100
Dividend cover	times	**2.9**	2.9		2.0
Special dividend	cents	**—**	—		1 500

** The percentage changes quoted in the commentary are based on figures denominated in R'million.*

		6 months ended August		August	Year ended
		2022	**2021**	**2022/2021* %**	**February 2022**
Assets					
Net loans and advances	R'm	**72 887**	59 486	23	66 549
Cash and financial investments[1]	R'm	**94 031**	93 165	1	97 901
Other	R'm	**15 792**	14 096	12	13 493
Total assets	R'm	**182 710**	166 747	10	177 943
Liabilities					
Deposits and wholesale funding	R'm	**140 723**	129 191	9	134 458
Other	R'm	**6 222**	5 600	11	7 720
Total liabilities	R'm	**146 945**	134 791	9	142 178
Equity					
Shareholders' funds (total equity)	R'm	**35 765**	31 956	12	35 765
Capital adequacy ratio (CAR)	%	**35**	37		36
Net asset value per ordinary share	cents	**30 887**	27 592	12	30 888
Number of shares for calculation	'000	**115 627**	115 627		115 627
Share price	cents	**204 355**	189 770	8	207 435
Market capitalisation	R'm	**237 256**	219 425	8	240 832
Number of shares in issue per the shareholders' register	'000	**116 100**	115 627		116 100
Operations					
Branches		**856**	852		853
Employees		**15 295**	14 789	3	14 758
Active clients (including POS merchants)[2]	'000	**19 029**	16 833	13	18 104
ATMs, DNRs and CNRs[3]					
Own		**2 959**	2 823	5	2 863
Partnership		**4 477**	4 264	5	4 315
Total		**7 436**	7 087	5	7 178
Capital expenditure	R'm	**582**	469	24	863
Credit sales					
Retail bank – value of total loans advanced	R'm	**26 528**	19 676	35	43 932
Value of credit card disbursements/drawdowns	R'm	**6 299**	5 248	20	11 011
Value of access facility disbursements/drawdowns	R'm	**9 852**	6 235	58	14 167
Value of term loans advanced (net of loan consolidations)	R'm	**10 377**	8 193	27	18 754
Business bank – value of total loans advanced	R'm	**32 293**	23 744	36	53 903
Value of mortgage loans advanced	R'm	**1 281**	611	>100	2 268
Value of business loans advanced	R'm	**1 376**	987	39	2 443
Value of overdraft disbursements/drawdowns[4]	R'm	**29 636**	22 146	34	49 192
Value of total loans advanced	R'm	**58 821**	43 420	35	97 835

** The percentage changes quoted in the commentary are based on figures denominated in R'million.*
(1) Cash, cash equivalents, money market funds, government bonds, term deposits and other financial investments.
(2) Point-of-sale merchants.
(3) Automated teller machines, dual note recyclers and coin and note recyclers.
(4) Overdraft disbursements/drawdowns are gross of repayments.

			6 months ended August 2022	2021	August 2022/2021* %	Year ended February 2022
Credit book						
Gross loans and advances		R'm	**91 935**	77 681	18	84 108
Up-to-date	Stage 1	R'm	**61 385**	49 478	24	55 297
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	**9 540**	6 426	48	8 641
Forward-looking SICR	Stage 2	R'm	**1 705**	4 566	(63)	3 059
Total up-to-date		R'm	**72 630**	60 470	20	66 997
Arrears	Stage 2	R'm	**1 552**	1 207	29	1 409
Arrears	Stage 3	R'm	**2 026**	1 536	32	1 744
Total arrears		R'm	**3 578**	2 743	30	3 153
Application for debt review within 6 months	Stage 3	R'm	**183**	155	18	141
COVID-19 reschedules	Stage 2	R'm	**463**	798	(42)	659
COVID-19 reschedules	Stage 3	R'm	**–**	35	(100)	–
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[1]	Stage 2	R'm	**141**	148	(5)	151
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[1]	Stage 3	R'm	**1 280**	1 503	(15)	1 175
Up-to-date that rescheduled from arrears (not yet rehabilitated)[1]	Stage 2	R'm	**111**	83	34	126
Up-to-date that rescheduled from arrears (not yet rehabilitated)[1]	Stage 3	R'm	**1 670**	1 827	(9)	1 634
Total up-to-date that rescheduled (not yet rehabilitated)[1]		R'm	**3 665**	4 394	(17)	3 745
More than 3 months in arrears and legal status	Stage 3	R'm	**11 879**	9 919	20	10 072
Total provision for credit impairment		R'm	**(19 048)**	(18 195)	5	(17 559)
Net loans and advances		R'm	**72 887**	59 486	23	66 549
Total provision for credit impairment to stage 3 and stage 2 (excluding SICR) coverage		%	**99**	106		103
Gross credit impairment charge on loans and advances		R'm	**3 302**	2 531	30	4 286
Bad debts recovered		R'm	**368**	502	(27)	818
Net credit impairment charge on loans and advances[2]		R'm	**2 934**	2 029	45	3 468
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)		%	**3.3**	2.7		4.4
Total lending and insurance income (excluding investment income)[3]		R'm	**8 877**	7 624	16	15 756
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)[3]		%	**33.1**	26.6		22.0
Deposits and wholesale funding						
Wholesale funding		R'm	**1 817**	1 340	36	2 060
Call savings		R'm	**91 653**	83 378	10	89 167
Fixed savings		R'm	**46 080**	42 968	7	41 928
Foreign currency deposits		R'm	**1 173**	1 505	(22)	1 303

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

[2] This charge is for loans and advances only. The income statement charge for the reporting period includes R5.7 million (August 2021: R38.9 million; February 2022: R39.6 million) related to other financial assets.

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

Commentary*

Creating the future

Capitec is creating the future by embracing technologies that satisfy our clients' needs and support their financial well-being. Our simple, affordable solutions create value for our clients and our digital innovation makes financial and value-added services available to an increasing number of retail clients. We are building systems that will allow us to offer our business banking clients a unique digital experience.

The migration of our data platform to the cloud and the implementation of bespoke client relationship management systems will allow us to continue building relationships with our clients that improve their financial lives.

The digital banking solutions that we have introduced have shifted clients away from cash transacting to digital banking. Clients using digital transacting grew by 21% to 10.8 million and they represent 57% of our total active clients. Digital transaction volumes grew by 27% to 791 million compared to the comparative period. The move to digital transacting allows us to scale future transaction volumes at minimal incremental cost.

During the reporting period, we implemented several digital payment solutions. Samsung Pay and Google Pay, for contactless mobile payments, were launched to our clients with zero fees for local card purchases. Capitec Pay, a secure online payment tool, was introduced and, together with Scan to pay, these payment solutions meet our clients' need for secure, convenient payment mechanisms that can be used anywhere and at any time. Digital payment data is utilised to improve our understanding of our clients and assists us in tailoring credit products that create value for our clients.

Capitec Connect, our prepaid mobile offering, was launched during September 2022. Capitec Connect combines low, flat prepaid rates with bundles that do not expire. Flat rates mean that the cost per unit for data, voice minutes or SMSes stays the same whether clients purchase a little or a lot. There are no out-of-bundle charges. Data costs R4.50 per 100MB, voice minutes 90 cents per minute and SMSes 25 cents per SMS. Clients do not pay transaction fees when they recharge.

The Live Better rewards programme encourages clients to Bank Better, Save Better and Spend Better. All credit card holders get 1% cash back on the value of their credit card purchases. Clients that attain monthly Bank Better goals also qualify for 0.5% cash back on their debit and credit card spend. During the reporting period, clients received cash backs amounting to R97 million. Clients also earn cash back and discounts when they spend with our reward partners.

Our automatic saving tools, Round-up and Interest Sweep, encourage a savings culture and clients receive higher interest rates on funds in their Live Better accounts. At the end of August 2022, the balances in Live Better savings accounts amounted to R194.8 million (August 2021: R26.2 million).

Value-added services have expanded with the addition of national lottery ticket purchases to the already established send cash and utility payments. We will be adding bill payments, which will allow our clients to make instant payments to bill issuers, at the end of October 2022.

Headline earnings

The group's headline earnings increased by 17% to R4.7 billion from R4.0 billion for the comparative period. Over the past 5 financial years, our compound annual growth rate was 17% despite the impact of the COVID-19 pandemic, the civil unrest and the KwaZulu-Natal floods. This demonstrates the underlying resilience of our business and the quality of our earnings.

Operating profit before tax and credit impairments grew by 24% to R8.8 billion. Lending income grew by 13% to R8.0 billion, net credit life insurance and funeral plan income grew by 64% to R1.5 billion and net transaction income (including net foreign currency income) grew by 8% to R5.6 billion.

Net credit life insurance income grew by 60% due to growth in active policies and a reduction in claims paid which also positively impacted the incurred but not yet reported (IBNR) provision. Funeral plan income grew by 72% based on growth in the active policy book, growth in average premiums and lower claims.

** The percentage changes quoted in the commentary are based on figures denominated in R'million.*

Net transaction income grew by 8% despite the impact of the continued shift away from cash to more cost-effective digital and POS transactions. This shift and the introduction of the Live Better rewards programme impacted gross transaction income. Digital transactions are, however, scalable at a lower cost than other transactions.

Operating expenses grew by 1% but excluding employee incentives grew by 9% primarily due to growth in the number of employees. Our cost-to-income ratio reduced from 45% in the comparative period to 40%.

We generated a return on equity of 26% (August 2021: 27%).

Credit

Lending results for the reporting period reflects the changing geopolitical and economic landscape during the past 18 months.

During the comparative period ended August 2021, the South African economy was recovering from the COVID-19 pandemic. Although the country was in the midst of the third wave of the pandemic and despite the civil unrest during July 2021, the annual inflation rate was 5% for August 2021 and the repo rate was 3.5%.

At the end of February 2022, Russia's invasion of Ukraine affected international economic conditions. Commodity prices increased significantly, the South African annual inflation rate was at 5.7% and the repo rate was 4%.

From March to August 2022, global and local economic conditions deteriorated. Devastating floods occurred in KwaZulu-Natal, the country was impacted by prolonged periods of load shedding, food and fuel prices spiked and the repo rate increased more rapidly than expected. At the end of August 2022, the annual inflation rate for August 2022 was 7.6% and the repo rate was 5.5%.

Loan sales and disbursements

Retail bank

Total loan sales and disbursements grew by 35% to R26.5 billion (August 2021: R19.7 billion). As the impact of the COVID-19 pandemic waned during the last quarter of the 2021 calendar year, we returned to our pre-COVID-19 risk appetite. This, in addition to a significantly higher number of credit applications, led to an increase in loan sales and disbursements.

The economic uncertainty, increasing interest rates, inflation and an increasing cost of living during the 6 months ended August 2022 focused our attention on identifying specific areas of risk within the loan book. We tightened granting rules and affordability criteria to ensure that we remained within our risk tolerance. This led to more muted loan sales and disbursements growth during the latter months of the reporting period.

The composition of loan sales and disbursements is reflected in the table below.

	6 months ended		
%	**August 2022**	**February 2022**	**August 2021**
Term loans	**39**	44	41
Access facilities	**37**	33	32
Credit cards	**24**	23	27
	100	100	100

Term loan sales grew to R10.4 billion (August 2021: R8.2 billion) but represent a lower proportion of the loan sales than in the comparative period. Credit card disbursements increased to R6.3 billion from R5.2 billion for the comparative period.

Access facility disbursements grew by 58% to R9.9 billion (August 2021: R6.2 billion) and represent 37% of loan sales and disbursements (August 2021: 32%). Disbursements grew because of new limits granted as well as ongoing utilisation by a larger base of existing clients. Utilisation of limits granted was 61% at the end of August 2022 (August 2021: 60%).

The ability to dynamically adjust access facility limits allows us to manage the risks in the loan book as well as utilise opportunities that are identified.

The total number of lending clients was 1.2 million (August 2021: 1.1 million).

Credit income

The group's interest income on loans increased by 13% to R7.4 billion (August 2021: R6.6 billion) due to increases in interest rates as well as the growth in loan sales and disbursements. The cumulative repo rate increases of 200bps from 3.5% at the end of August 2021 to 5.5% at the end of August 2022 contributed to the growth in interest income. The full impact of the higher loan sales and disbursements will reflect in interest income over time.

Retail bank

Interest income on loans for the period ended August 2022 increased by 11% to R6.8 billion (August 2021: R6.1 billion).

The increases in the repo rate directly affected our variable interest rate products. This positively impacted yields on access facility and credit card disbursements for the period. Interest rates on term loans are fixed and are risk-based. Yields decreased by 0.8% despite increases in the repo rate as new term loans were advanced to better quality credit clients than in the comparative period.

Credit impairments and provision for expected credit losses (ECL)

Group net credit impairments on loans and advances increased by 45% to R2.9 billion (August 2021: R2.0 billion). The credit impairment charge was driven by the increase in loan sales and disbursements, changes in the composition of the loan book and a partial release of the forward-looking macroeconomic ECL provision.

Retail bank

The net credit impairment charge on loans and advances was R2.8 billion (August 2021: R1.9 billion). The table below reflects the change in write-off, movement in the provision for ECL and bad debts recovered on loans and advances.

	6 months ended		
R'm	August 2022	February 2022	August 2021
Bad debts written off	**2 511**	3 152	2 958
Movement in provision for ECL	**697**	(1 478)	(525)
Gross credit impairment charge[(1)]	**3 208**	1 674	2 433
Bad debts recovered	**(365)**	(319)	(496)
Net credit impairment charge	**2 843**	1 355	1 937

(1) Under International Financial Reporting Standards (IFRS) 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing both interest received and the credit impairment charge by R0.8 billion for this period (August 2021: R0.9 billion; February 2022: R0.7 billion).

Bad debts written off decreased to R2.5 billion (August 2021: R3.0 billion) due to lower write-offs of COVID-19-related reschedules which amounted to R312 million (August 2021: R490 million). This was because the value of COVID-19-related reschedules in stage 3 of the loan book diminished over time. There were higher debt review (August 2022: R5.0 billion; August 2021: R4.5 billion) and handed over (August 2022: R4.2 billion; August 2021: R3.0 billion) balances than in the comparative period. While these loans perform according to the payment arrangements that were made, they remain on the loan book and are not written off.

Bad debts recovered (excluding debt sales) consisted primarily of recoveries on loans written off before the implementation of IFRS 9 in March 2018 (August 2022: R286 million; August 2021: R366 million). After the implementation of IFRS 9, balances remain on the loan book for longer before being written off. This means that amounts recovered, while the balances are handed over or in debt review, and clients are making payments, reduce the loan book and do not form part of bad debts recovered. This has led to a downward trend in bad debts recovered that will continue. During the reporting period, debt sales generated R79 million in recoveries (August 2021: R130 million).

The movement in the provision for ECL was a release of R525 million in the comparative period and a charge of R697 million for the reporting period. The release in the comparative period was due to high volumes of COVID-19-related reschedules that rehabilitated and moved out of the stage 3 loan book to the stage 1 (up-to-date) or stage 2 (up-to-date with SICR or forward-looking SICR) loan book. In the reporting period, the movement out of the rescheduled book has primarily been into arrears.

The increase in the provision for ECL to R18.3 billion (August 2021: R17.5 billion), which represents 23.5% of the loan book (August 2021: 26.5%), was driven by loan book growth and composition, the quality of the loan book and a partial release of the forward-looking macroeconomic provision which are detailed below.

Loan book growth and composition

The gross loan book grew by 18% to R77.9 billion (August 2021: R66.1 billion). This impacted the movement in the provision for ECL.

The retail loan book is 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 31 August 2022									
Gross loans and advances	49 450	9 165	1 705	1 510	2 026	1 280	1 670	11 099	77 905
Provision for credit impairments (ECL)[2]	(4 884)	(1 929)	(390)	(751)	(1 385)	(362)	(412)	(8 186)	(18 299)
Net loans and advances	44 566	7 236	1 315	759	641	918	1 258	2 913	59 606
ECL coverage (%)	9.9	21.0	22.9	49.7	68.4	28.3	24.7	73.8	23.5
% of gross loan book	63	12	2	2	3	2	2	14	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
Balance as at 31 August 2021									
Gross loans and advances	40 090	6 103	4 566	1 142	1 536	1 503	1 827	9 328	66 095
Provision for credit impairments (ECL)[2]	(4 740)	(1 493)	(918)	(610)	(1 124)	(553)	(531)	(7 515)	(17 484)
Net loans and advances	35 350	4 610	3 648	532	412	950	1 296	1 813	48 611
ECL coverage (%)	11.8	24.5	20.1	53.4	73.2	36.8	29.1	80.6	26.5
% of gross loan book	61	9	7	2	2	2	3	14	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.

The provision for ECL coverage ratio on the total loan book was 23.5% (August 2021: 26.5%; February 2022: 23.6%) and is returning to pre-COVID-19 pandemic levels (August 2019: 21.3%). The coverage ratio peaked at 28% in August 2020.

The coverage ratio decreased from the comparative period when provisions were held for COVID-19-related risks. The ratio has not changed significantly compared to February 2022 because the forward-looking macroeconomic provision was partially released as the expected impact of the deteriorating economy was provided for by the base provision model. The stage 1 coverage ratio decreased because the rehabilitated COVID-19 and other reschedules included in the stage 1 balance performed well.

Loans advanced and disbursements made attract a 12-month provision for ECL in the month of granting. Growth in loan sales and disbursements contributed R480 million to the credit impairment charge for the reporting period at an average coverage ratio of 7%.

There has not been any material shift in the percentage of the gross loan book per category from the comparative period. The only noticeable change was that the stage 1 loan book increased to 63% of the total loan book (August 2021: 61%) and there was a corresponding decrease in the balances with SICR.

Loan balances that were between 1 and 3 months in arrears grew by R858 million and comprised 5% of the gross loan book (August 2021: 4%). Arrears worsened because economic conditions deteriorated between February and August 2022.

In April 2022, there was an increase in balances that were 1 month in arrears due to a mining strike and some of these balances migrated through the book, notwithstanding a focused campaign to reschedule the affected clients. System problems in August 2022 led to further growth in arrears in all categories.

Loans that were more than 3 months in arrears, had a legal status or where clients had applied for debt review within the previous 6 months grew to R11.1 billion (August 2021: R9.3 billion). The rolls into default across all industries returned to levels seen during 2019.

Forward-looking macroeconomic provision

At February 2022, the total forward-looking provision for ECL was R3.0 billion. The ECL calculation was updated during the reporting period based on economic forecasts obtained from the Bureau for Economic Research and on actual experience for the months from March 2022 to August 2022, resulting in a release of R0.8 billion.

Net investment income

Interest income on investments grew by 31% to R2.5 billion for the 6 months ended August 2022 (August 2021: R1.9 billion). Interest expense increased by 33% to R3.1 billion (August 2021: R2.3 billion). Both the interest income on investments and the interest expense were impacted by the increases in the repo rate.

Deposits grew by 9% and totalled R138.9 billion (August 2021: R127.9 billion). The group's clients earned R2.9 billion (August 2021: R2.1 billion) in interest on call, fixed deposit and positive credit card balances for the period.

Net transaction income

Net transaction income grew by 8% to R5.6 billion (August 2021: R5.2 billion). The continued growth in our active client base, the expansion of our product offering and the optimisation of our existing transacting channels were the primary drivers of the growth.

The ratio of net transaction income, funeral plan income and foreign currency income to operating expenses was 108% (August 2021: 98%) and represented 54% (August 2021: 52%) of net income.

Retail bank

Net transaction income amounted to R5.2 billion compared to R4.8 billion in the comparative period. Gross transaction income grew by 17% to R7.3 billion (August 2021: R6.3 billion), while transaction expenses grew by 40% to R2.1 billion (August 2021: R1.5 billion).

Transaction income

Transaction volumes increased by 26% and clients migrated away from cash transactions to digital and POS transactions. Our focus is on affordable and accessible banking for our clients through innovation and low transaction fees on digital transactions. Our digital fees were unchanged for the 4th year in a row and we added free payment features on our app.

Digital transaction volumes grew by 27% year-on-year to 791 million for the reporting period. Transaction volumes on the banking app increased by 51% from 340 million to 515 million and represent 65% of digital transactions (August 2021: 55%). POS transaction volumes increased by 32% to 836 million (August 2021: 631 million) for the reporting period.

The growth in quality banking clients of 16% to 5.1 million (August 2021: 4.4 million) contributed to the growth in transaction volumes. A quality banking client is a client who has stable inflows into their account and stable product usage over a consecutive 3-month period. Clients using digital transacting increased by 21% to 10.8 million (August 2021: 8.9 million), representing 57% (August 2021: 53%) of our total active client base. Active banking app users grew to 7.8 million (August 2021: 6.0 million).

Transaction volumes by channel are illustrated in the table below.

	6 months ended		
million	**August 2022**	**August 2021**	**Variance %**
Transacting channel			
Digital	**791**	623	27
POS	**836**	631	32
Cash	**277**	257	8
Branch	**25**	25	—
	1 929	1 536	26

Digital and POS transactions are more affordable for clients and are scalable with limited incremental cost. We are driving the shift to digital transacting and our long-term strategy is to shape the future of banking. The alternative payment solutions we have introduced, increased fees on cash transactions and device down time due to load shedding resulted in the ratio of cash transactions to total transactions decreasing to 14% from 17% in the comparative period.

Transaction income reduced by R220 million because of the migration to in-app notifications and the reduction in SMS notification fees from 40 cents to 25 cents.

Branch transaction volumes remained flat year-on-year but there was an increase in transactions utilising self-service terminals and DNRs where cash deposits can be made. Self-service terminal volumes now comprise 45% (August 2021: 39%) of total branch-related transactions.

During the reporting period, we added additional products to our value-added services offering which grew by 17%. Value-added services include prepaid purchases of electricity and data, send cash and national lottery ticket purchases.

Transaction expenses

Transaction expenses grew by R0.6 billion primarily due to the growth in transaction volumes. Abnormal rebates in the amount of R143 million reduced expenses in the comparative period and cash backs paid to our clients as part of the Live Better rewards programme increased transaction expenses by R97 million in the reporting period. The Live Better rewards programme will grow transaction income in the long term. The cash backs are also part of our strategy to shift clients from cash to digital transacting. After adjusting for these differences, transaction expenses grew by 27%.

Insurance income

Net credit life insurance income

Net insurance income from credit life policies increased by 60% to R912 million (August 2021: R571 million).

Premium income grew based on an increase of 14% in the average active book which reflected the increase in loan sales and disbursements.

Claims reduced by 28% from the comparative period to R375 million (August 2021: R519 million). Of the claims paid, R174 million related to retrenchment (August 2021: R285 million), R152 million to death (August 2021: R208 million) and R49 million to disability (August 2021: R26 million).

The IBNR provision for the comparative period was R568 million. At the end of August 2022, the provision was R318 million. The decrease in the provision aligns with the decrease in claims paid.

Funeral plan income

The Capitec funeral plan income increased by 72% to R629 million (August 2021: R366 million). The increase was driven by growth in the active book, increased average premiums per policy and improved claims experience. Active policies increased to 2.0 million (August 2021: 1.5 million). At the end of August 2022, 8.9 million South Africans were covered by a Capitec funeral plan.

Persistency in the 12 months after a policy is issued is a key indicator of the quality of funeral plan policies issued over time. Persistency as at the end of August 2022 was 61% (August 2021: 57%).

Operating expenses

Operating expenses increased by 1% to R5.8 billion (August 2021: R5.7 billion). The cost-to-income ratio was 40% (August 2021: 45%). Operating expenses excluding incentives grew by 9%.

Employment costs excluding incentives increased by 13% to R2.8 billion (August 2021: R2.5 billion). The number of employees grew from 14 789 at the end of the comparative period to 15 295 at the end of August 2022.

The drive to migrate our information technology infrastructure to the cloud is an integral part of our digital banking journey. The cost of using software as a service contributed to the increase in operating expenses.

Our clients' shift to digital transacting is gradually reducing the cost of making cash available although there is a lag in the benefit due to the fixed component of cash costs. Costs associated with making cash available to clients did, however, decrease by R43 million during the reporting period.

Business bank

Business bank contributed R201 million to group earnings for the period (August 2021: R126 million).

The loan book grew by 21% to R14.0 billion (August 2021: R11.6 billion), and together with the impact of the repo rate increases during the period, this led to an increase of 39% in interest income on loans to R612 million (August 2021: R441 million). The credit loss ratio was 0.7% for the 6 months (August 2021: 0.8%) and the loan book is managed proactively.

Total clients including POS merchants grew by 14% to 142 185 during the last 6 months. The growth in client numbers contributed to a 13% increase in transaction fee income to R399 million.

Credit ratings

During May 2022, S&P Global affirmed the South African Sovereign rating together with the ratings of Capitec and other South African banks and revised the outlook from stable to positive. We have a global long-term rating of BB- and a short-term global rating of B. Our South African long-term national scale rating is zaAA and the short-term rating is zaA-1+.

Capital and liquidity

We remain well capitalised with a capital adequacy ratio of 35.0% for the group compared to 37.4% at the end of August 2021. The decrease in the capital adequacy ratio is attributable to the special dividend that was paid in May 2022.

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 603% and our NSFR is 220.5%, with the regulatory requirement of 100% for both ratios.

Prospects

Our focus remains on being innovative and responsive in an ever-changing environment. We will offer an ecosystem of services to address clients' needs. Our Live Better rewards programme and value-added services will expand.

Through innovation and by making use of data and technology, we will develop products and services to enhance our clients' financial well-being and improve their digital experience.

Employees in the data and technology field remain in high demand locally and abroad. We appointed 1 642 external employees during the past 6 months with 20% fulfilling data and technology roles. We will continue to appoint more data and technology experts for the rest of the financial year.

We are passionate about empowering and upskilling our employees through education and mentorship. This resulted in 30% of our vacant positions being filled by internal candidates.

Business bank is making good progress with the re-engineering of systems and processes and the migration to cloud computing. Testing of the new online banking system and the remote onboarding process will start soon. This will enable the business to manage the anticipated volumes when we rebrand from Mercantile Bank to Capitec Business and will ensure that we provide business banking clients with the high levels of service Capitec clients currently enjoy. We anticipate that the rebrand will occur in the first quarter of the next financial year.

Changes in board composition

On 30 June 2022, André du Plessis, chief financial officer (CFO), financial director and co-founder of the bank retired. We thank and pay tribute to André for his invaluable contribution in building the bank. Grant Hardy was appointed as André's successor effective 1 July 2022. We look forward to his contribution and welcome him to the board.

Interim dividend

The directors resolved that a gross interim dividend of 1 400 cents per ordinary share be declared for the 6 months ended 31 August 2022 (31 August 2021: 1 200 cents) on 29 September 2022. The dividend will be paid on Monday, 24 October 2022. There are 116 099 843 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act, Act 58 of 1962. The dividend amount, net of South African dividend tax of 20%, is 1 120 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 18 October 2022
Trading ex-dividend commences	Wednesday, 19 October 2022
Record date	Friday, 21 October 2022
Payment date	Monday, 24 October 2022

Share certificates may not be dematerialised or rematerialised from Wednesday, 19 October 2022 to Friday, 21 October 2022, both days inclusive.

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

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Stellenbosch
29 September 2022

Condensed consolidated statement of financial position

As at 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Assets				
Cash, cash equivalents and money market funds	**26 602**	31 782	(16)	34 239
Financial investments at amortised cost	**64 112**	60 175	7	62 940
Term deposit investments	**3 317**	1 208	>100	722
Net loans and advances	**72 887**	59 486	23	66 549
Other receivables	**5 521**	3 238	71	3 285
Net insurance receivable	**551**	1 543	(64)	678
Derivative assets	**26**	69	(62)	15
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	**73**	73		73
Current income tax asset	**48**	—		—
Interest in associates and joint ventures	**496**	369	34	394
Property and equipment	**3 203**	2 927	9	3 022
Right-of-use assets	**1 850**	1 998	(7)	1 909
Intangible assets including goodwill	**1 364**	1 445	(6)	1 348
Deferred income tax asset	**2 660**	2 434	9	2 769
Total assets	**182 710**	166 747	10	177 943
Liabilities				
Derivative liabilities	**25**	77	(68)	34
Current income tax liability	**—**	164	(100)	302
Deposits	**138 906**	127 851	9	132 398
Wholesale funding	**1 817**	1 340	36	2 060
Other liabilities	**3 685**	2 758	34	4 747
Lease liabilities	**2 379**	2 485	(4)	2 425
Employee benefit liabilities	**133**	116	15	212
Total liabilities	**146 945**	134 791	9	142 178
Equity				
Capital and reserves				
Ordinary share capital and premium	**5 649**	5 649		5 649
Cash flow hedge reserve	**—**	(24)	(100)	(12)
Other reserves	**(28)**	(29)	(3)	(29)
Foreign currency translation reserve	**39**	31	26	31
Share option reserve	**516**	—		516
Retained earnings	**29 538**	26 277	12	29 559
Share capital and reserves attributable to ordinary shareholders	**35 714**	31 904	12	35 714
Preference share capital and premium	**51**	52	(2)	51
Total equity	**35 765**	31 956	12	35 765
Total equity and liabilities	**182 710**	166 747	10	177 943

Condensed consolidated income statement

6 months ended 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Lending, investment and insurance income	**11 379**	9 532	19	19 963
Interest income	**9 934**	8 480	17	17 454
Loan fee income	**533**	481	11	969
Net insurance income	**912**	571	60	1 540
Lending and investment expenses	**(3 082)**	(2 330)	32	(4 856)
Interest expense	**(3 071)**	(2 317)	33	(4 838)
Loan fee expense	**(11)**	(13)	(15)	(18)
Net lending, investment and insurance income	**8 297**	7 202	15	15 107
Transaction fee income[1]	**7 991**	6 910	16	14 533
Transaction fee expense	**(2 432)**	(1 760)	38	(4 018)
Net transaction income	**5 559**	5 150	8	10 515
Foreign currency income	**258**	258		497
Foreign currency expense	**(180)**	(185)	(3)	(353)
Net foreign currency income	**78**	73	7	144
Funeral plan income	**629**	366	72	906
Other income	**15**	24	(38)	290
Credit impairments	**(2 939)**	(2 068)	42	(3 508)
Net income	**11 639**	10 747	8	23 454
Operating expenses	**(5 777)**	(5 716)	1	(12 555)
Share of net profit of associates and joint ventures	**32**	11	>100	36
Operating profit before tax	**5 894**	5 042	17	10 935
Income tax expense	**(1 226)**	(1 124)	9	(2 408)
Profit for the period	**4 668**	3 918	19	8 527
Earnings per share (cents)				
Basic	**4 035**	3 387	19	7 371
Diluted	**4 025**	3 383	19	7 360

[1] *Transaction fee income consists of: branch, cash and self-service transaction fees in the amount of R3.0 billion (August 2021: R2.7 billion; February 2022: R5.7 billion), digital transaction fees in the amount of R1.4 billion (August 2021: R1.0 billion; February 2022: R2.1 billion), monthly fees, debit order fees and other transaction fees in the amount of R2.3 billion (August 2021: R2.1 billion; February 2022: R4.4 billion) and POS transaction fees in the amount of R1.3 billion (August 2021: R1.1 billion; February 2022: R2.3 billion).*

Condensed consolidated statement of other comprehensive income

6 months ended 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Profit for the period	**4 668**	3 918	19	8 527
Other comprehensive income that may subsequently be reclassified to profit or loss	**20**	(14)		(2)
Cash flow hedge reserve recognised	**8**	(7)		1
Cash flow hedge reclassified to profit or loss	**9**	14	(36)	23
Income tax relating to cash flow hedge	**(5)**	(2)	>100	(7)
Foreign currency translation reserve recognised	**8**	(19)		(19)
Other comprehensive income that will not subsequently be reclassified to profit or loss	**1**	1		7
Remeasurement of defined benefit obligation	**—**	—		1
Profit on remeasurement to fair value of financial assets (FVOCI)	**1**	1		7
Income tax thereon	**—**	—		(1)
Total comprehensive income for the period	**4 689**	3 905	20	8 532

Reconciliation of attributable earnings to headline earnings

6 months ended 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Profit for the period	**4 668**	3 918	19	8 527
Preference dividend	**(2)**	(2)		(3)
Discount on repurchase of preference shares	**—**	—		(1)
Net profit after tax attributable to ordinary shareholders	**4 666**	3 916	19	8 523
Non-headline items:				
Derecognition of equipment due to the civil unrest	**—**	75	(100)	42
Taxable loss	**—**	104	(100)	58
Income tax	**—**	(29)	(100)	(16)
Sasria insurance recoveries on property and equipment related to the civil unrest	**—**	—		(143)
Taxable profit	**—**	—		(198)
Income tax	**—**	—		55
(Profit) on disposal of property and equipment	**(1)**	(4)	(75)	(1)
Taxable (profit)/loss	**(5)**	(5)		12
Income tax	**1**	1		(3)
Non-tax deductible loss/non-taxable (profit)	**3**	—		(10)
Loss on disposal of intangible assets	**—**	—		19
Taxable loss	**—**	—		27
Income tax	**—**	—		(8)
Headline earnings	**4 665**	3 987	17	8 440
Basic headline earnings per share (cents)	**4 034**	3 447	17	7 300
Diluted headline earnings per share (cents)	**4 024**	3 444	17	7 289

Condensed consolidated statement of changes in equity

6 months ended 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Ordinary share capital and premium				
Balance at the beginning and end of the period	**5 649**	5 649		5 649
Cash flow hedge reserve				
Balance at the beginning of the period	**(12)**	(29)	(59)	(29)
Total comprehensive income	**12**	5	>100	17
Balance at the end of the period	**—**	(24)	—	(12)
Other reserves				
Balance at the beginning of the period	**(29)**	(36)	(19)	(36)
Total comprehensive income	**1**	1		7
Reclassified to profit and loss	**—**	6	—	—
Balance at the end of the period	**(28)**	(29)	—	(29)
Foreign currency translation reserve				
Balance at the beginning of the period	**31**	50	(38)	50
Total comprehensive income	**8**	(19)		(19)
Balance at the end of the period	**39**	31	—	31
Share option reserve				
Balance at the beginning of the period	**516**	—		—
Izindaba Ezinhle Employee Share Scheme	**—**	—		516
Balance at the end of the period	**516**	—		516
Retained earnings				
Balance at the beginning of the period	**29 559**	24 225	22	24 225
Total comprehensive income	**4 668**	3 918	19	8 527
Ordinary dividend	**(4 574)**	(1 850)	>100	(3 238)
Preference dividend	**(2)**	(2)		(3)
Employee share option scheme: value of employee services	**36**	23	57	54
Shares acquired for employee share options at cost	**(174)**	(66)	>100	(69)
Proceeds on settlement of employee share options	**75**	56	34	56
Tax effect on share options	**6**	(27)		53
Fair value of shares utilised for net settlement	**(56)**	—		(46)
Balance at the end of the period	**29 538**	26 277	12	29 559
Share capital and reserves attributable to ordinary shareholders	**35 714**	31 904	12	35 714
Preference share capital and premium				
Balance at the beginning of the period	**51**	56	(9)	56
Preference shares repurchased	**—**	(4)	(100)	(5)
Balance at the end of the period	**51**	52	(2)	51
Total equity	**35 765**	31 956	12	35 765

Condensed consolidated statement of cash flows

6 months ended 31 August 2022

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Cash flows from operating activities				
Cash flow from operations[1]	**2 678**	10 234	(74)	16 860
Income tax paid	**(1 465)**	(1 438)	2	(2 845)
	1 213	8 796	(86)	14 015
Cash flows from investing activities				
Acquisition of property and equipment	**(494)**	(390)	27	(746)
Disposal of property and equipment	**14**	7	100	11
Acquisition of intangible assets	**(89)**	(79)	13	(117)
Investment in term deposit investments	**(3 250)**	(1 200)	>100	(1 200)
Redemption of term deposit investments	**700**	300	>100	800
Acquisition of financial investments at amortised cost	**(26 219)**	(36 799)	(29)	(63 671)
Redemption of financial investments at amortised cost	**25 350**	11 918	>100	36 477
Redemption of financial assets at fair value through profit or loss (FVTPL)	**–**	2 960	(100)	2 960
Decrease in short-term money market investments	**–**	(6)	(100)	12
Interest acquired in associates and joint ventures	**(62)**	–		–
Acquisition of financial investments at FVOCI	**–**	(1)	(100)	(2)
Insurance recovery – civil unrest	**–**	–		198
	(4 050)	(23 290)	(83)	(25 278)
Cash flows from financing activities				
Dividends paid	**(4 574)**	(1 849)	>100	(3 238)
Preference shares repurchased	**–**	(4)	(100)	(5)
Issue of institutional bonds and other funding	**–**	–		750
Redemption of institutional bonds and other funding	**–**	(1 000)	(100)	(1 000)
Payment of lease liabilities	**(179)**	(153)	17	(320)
Shares acquired for settlement of employee share options	**(111)**	(66)	68	(17)
Participants' contribution on settlement of options	**34**	56	(39)	21
	(4 830)	(3 016)	60	(3 809)
Effect of exchange rate changes on cash and cash equivalents	**29**	(34)		3
Net (decrease) in cash and cash equivalents	**(7 638)**	(17 544)	(56)	(15 069)
Cash and cash equivalents at the beginning of the period	**34 240**	49 309	(31)	49 309
Cash and cash equivalents at the end of the period[2]	**26 602**	31 765	(16)	34 240

[1] Includes: cash inflow from interest received of R9.5 billion (August 2021: R8.1 billion; February 2022: R16.7 billion), cash outflow from interest paid of R3.0 billion (August 2021: R2.3 billion; February 2022: R4.9 billion), cash outlflow from loans and advances R10.4 billion (August 2021: R5.6 billion; February 2022: R15.3 billion), and cash inflow from deposits R6.2 billion (August 2021: R9.2 billion; February 2022: R13.8 billion).

[2] Cash and cash equivalents before deduction of provision for impairments (ECL) and excluding money market funds in the amount of Rnil (August 2021: R18 million; February 2022: Rnil).

Notes to the condensed consolidated interim financial statements

6 months ended 31 August 2022

1. Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with IFRS, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended. The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements.

The JSE Limited Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS, and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

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 condensed consolidated financial statements, did not change compared to the prior financial year.

In calculating the ECL for the 6 months ended 31 August 2022, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historical data is used to project ECL. This was considered by applying macroeconomic information available up to 31 August 2022.

There were no new standards or amendments to existing standards that had a material impact on the condensed consolidated interim financial statements that became effective during the 6 months ended 31 August 2022.

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

The preparation of the unaudited condensed consolidated interim financial statements was supervised by the CFO, Grant Hardy CA(SA).

2. Net loans and advances

Retail bank

	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 31 August 2022									
Gross loans and advances	**49 450**	**9 165**	**1 705**	**1 510**	**2 026**	**1 280**	**1 670**	**11 099**	**77 905**
Provision for credit impairments (ECL)[2]	**(4 884)**	**(1 929)**	**(390)**	**(751)**	**(1 385)**	**(362)**	**(412)**	**(8 186)**	**(18 299)**
Net loans and advances	**44 566**	**7 236**	**1 315**	**759**	**641**	**918**	**1 258**	**2 913**	**59 606**
ECL coverage (%)	**9.9**	**21.0**	**22.9**	**49.7**	**68.4**	**28.3**	**24.7**	**73.8**	**23.5**
% of gross loan book	**63**	**12**	**2**	**2**	**3**	**2**	**2**	**14**	**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
Balance as at 31 August 2021									
Gross loans and advances	40 090	6 103	4 566	1 142	1 536	1 503	1 827	9 328	66 095
Provision for credit impairments (ECL)[2]	(4 740)	(1 493)	(918)	(610)	(1 124)	(553)	(531)	(7 515)	(17 484)
Net loans and advances	35 350	4 610	3 648	532	412	950	1 296	1 813	48 611
ECL coverage (%)	11.8	24.5	20.1	53.4	73.2	36.8	29.1	80.6	26.5
% of gross loan book	61	9	7	2	2	2	3	14	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.*

Business bank

R'm	Stage 1 12-month ECL		Stage 2 Lifetime ECL					Stage 3 Lifetime ECL		
	Up-to-date	Up to 1 month in arrears	Up-to-date loans SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[1]	COVID-19 reschedules[1]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
Balance as at 31 August 2022										
Gross loans and advances	**11 835**	**100**	**375**	**42**	**141**	**111**	**463**	**—**	**963**	**14 030**
Provision for credit impairments (ECL)[2][3]	**(231)**	**(1)**	**(89)**	**(11)**	**(20)**	**(11)**	**(71)**	**—**	**(315)**	**(749)**
Net loans and advances	**11 604**	**99**	**286**	**31**	**121**	**100**	**392**	**—**	**648**	**13 281**
ECL coverage (%)[4]	**2.0**	**1.2**	**23.8**	**25.4**	**14.4**	**9.9**	**15.3**		**32.7**	**5.3**
% of gross loan book	**84**	**1**	**3**	**—**	**1**	**1**	**3**		**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)[2][3]	(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 (%)[4]	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
Balance as at 31 August 2021										
Gross loans and advances	9 322	66	323	65	148	83	798	35	746	11 586
Provision for credit impairments (ECL)[2][3]	(195)	(1)	(44)	(10)	(10)	(8)	(113)	(5)	(325)	(711)
Net loans and advances	9 127	65	279	55	138	75	685	30	421	10 875
ECL coverage (%)[4]	2.1	1.4	13.5	14.7	6.9	9.3	14.1	14.2	43.6	6.1
% of gross loan book	80	1	3	1	1	1	7	—	6	100

(1) COVID-19-related reschedules prior to the Prudential Authority Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria and have not yet rehabilitated or defaulted were classified as stage 2 COVID-19-related reschedules.

(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.

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

(4) The ECL coverage ratio is calculated before rounding, as derived from the unaudited condensed consolidated financial statements.

3. Commitments and contingent liabilities

R'm	August 2022	August 2021	August 2022/2021 %	Year ended February 2022
Capital commitments – approved by the board				
Contracted for:				
Property and equipment	**141**	207	(32)	180
Intangible assets	**45**	47	(4)	27
Not contracted for:				
Property and equipment	**341**	333	2	786
Intangible assets	**130**	300	(57)	247
Total capital commitments	**657**	887	(26)	1 240
Loan commitments	**14 828**	8 178	81	11 483
Retail bank	**14 590**	7 988	83	11 301
Business bank	**238**	190	25	182
Guarantees – Business bank	**773**	656	18	689
Letters of credit	**11**	29	(62)	12
Total loan commitments and guarantees	**15 612**	8 863	76	12 184
Contingent liabilities				
VAT	**–**	27	(100)	27

4. Fair value hierarchy and classification of financial assets and liabilities

Determination of fair values and valuation process

Fair values are market-based, calculated first with reference to observable inputs available in the market, then less observable 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's finance department performs the valuations of financial assets and financial 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. 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 first 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 reporting period.

The fair value hierarchy is applied to both assets and liabilities measured at FVTPL and those measured using amortised cost.

The table that follows summarises the classification of financial assets and financial liabilities and their fair values.

R'm	August 2022	August 2021	Year ended February 2022	Hierarchy of valuation technique
Financial assets				
Cash, cash equivalents and money market funds	**26 602**	31 782	34 239	Level 2
Term deposit investments	**3 317**	1 208	722	Level 2
Financial investments at amortised cost	**63 191**	60 175	62 797	Level 2
Financial assets – equity instruments at FVOCI	**73**	73	73	Level 3
Net loans and advances – Retail	**62 043**	49 662	55 989	Level 3
Net loans and advances – Business	**6 181**	5 163	5 565	Level 3
Net loans and advances – Mortgage	**7 333**	5 712	6 547	Level 3
Other receivables	**4 775**	2 632	2 648	Level 2
Funeral plan income receivable	**478**	401	478	Level 3
Derivative assets	**26**	69	15	Level 2
Financial liabilities				
Deposits and bonds	**140 101**	129 277	136 011	Level 2
Derivative liabilities	**25**	77	34	Level 2
Trade and other payables	**2 216**	1 288	2 218	Level 2

5. Segment information

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

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

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 accounts.

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 include foreign exchange spot trades and foreign exchange forward contracts.

5. Segment information continued

Insurance

Cell captive arrangements enable Capitec Ins Proprietary Limited (Capitec Ins) to provide long-term insurance products to Retail bank clients. The cell captives were transferred to Capitec Ins during the 2022 financial year. Capitec Ins participates in the operating results of the cells as 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.

Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on the operating results of the cells 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 administrative operating costs for the Insurance operating segment were incurred by the Retail bank operating segment as Capitec Ins is merely the shareholder of the cells participating 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 those in the income statement.

R'm	August 2022 Retail bank	August 2022 Business bank	August 2022 Insurance	August 2022 Total	August 2021 Retail bank	August 2021 Business bank	August 2021 Insurance	August 2021 Total
Lending, investment and insurance income	9 876	776	915	11 379	8 535	578	571	9 532
Interest income on lending	6 820	612	—	7 432	6 131	441	—	6 572
Interest income on investments[1][2]	2 527	160	3	2 502	1 928	132	—	1 908
Loan fee income	529	4	—	533	476	5	—	481
Net insurance income	—	—	912	912	—	—	571	571
Lending and investment expenses	(2 933)	(337)	—	(3 082)	(2 252)	(230)	—	(2 330)
Interest expense[1][2]	(2 922)	(337)	—	(3 071)	(2 239)	(230)	—	(2 317)
Loan fee expense	(11)	—	—	(11)	(13)	—	—	(13)
Net lending, investment and insurance income	6 943	439	915	8 297	6 283	348	571	7 202
Transaction fee income[1][3]	7 351	716	—	7 991	6 261	649	—	6 910
Transaction fee expense[1][3]	(2 142)	(317)	—	(2 432)	(1 464)	(296)	—	(1 760)
Net transaction income	5 209	399	—	5 559	4 797	353	—	5 150
Foreign currency income	—	258	—	258	—	258	—	258
Foreign currency expense	—	(180)	—	(180)	—	(185)	—	(185)
Net foreign currency income	—	78	—	78	—	73	—	73
Funeral plan income	—	—	629	629	—	—	366	366
Other income	—	15	—	15	14	10	—	24
Credit impairments	(2 849)	(90)	—	(2 939)	(1 976)	(92)	—	(2 068)
Net income	9 303	841	1 544	11 639	9 118	692	937	10 747
Operating expenses[1][3][4][5]	(4 713)	(523)	(3)	(5 190)	(4 630)	(468)	—	(5 098)
Depreciation[5]	(478)	(36)	—	(514)	(466)	(37)	—	(503)
Amortisation[5]	(58)	(8)	—	(66)	(91)	(17)	—	(108)
Amortisation of intangible assets – core deposits and client relationships[1]	—	—	—	(7)	—	—	—	(7)
Share of net profit of associates and joint ventures	32	—	—	32	11	—	—	11
Operating profit before tax[1]	4 086	274	1 541	5 894	3 942	170	937	5 042
Income tax expense	(1 155)	(73)	—	(1 228)	(1 082)	(44)	—	(1 126)
Tax on amortisation of intangible assets[1]	—	—	—	2	—	—	—	2
Profit for the period[1]	2 931	201	1 541	4 668	2 860	126	937	3 918
Assets								
Net loans and advances	59 606	13 281	—	72 887	48 611	10 875	—	59 486
Other[2]	105 174	6 704	1 440	108 915	101 882	8 413	1 945	106 339
Acquisition of Mercantile	—	—	—	908	—	—	—	922
Goodwill[1]	—	—	—	849	—	—	—	849
Intangible asset – core deposit intangible[1]	—	—	—	48	—	—	—	60
Intangible asset – client relationships[1]	—	—	—	11	—	—	—	13
Total assets[1][2]	164 780	19 985	1 440	182 710	150 493	19 288	1 945	166 747

(1) Consolidation entries not included in either segment.

(2) The Retail bank and Business bank assets include an amount of R4.5 billion (August 2021: R5.9 billion) in investments that eliminates against liabilities at group level. Interest on the investments amounted to R157 million (August 2021: R152 million) and is disclosed in Retail bank interest expense and Business bank interest on investments.

(3) The Business bank transaction income includes a net amount of R49 million that relates to collections undertaken for Retail bank. The expense is included in Retail bank's operating expenses.

(4) Shared services costs have been included in the Retail bank segment as the most significant costs relate to this segment.

(5) The disclosure of the depreciation and amortisation has been disaggregated in the current period segment information. The total as previously reported has not changed.

5. Segment information continued

R'm	Retail bank	Year ended February 2022 Business bank	Insurance	Total
Lending, investment and insurance income	17 526	1 189	1 540	19 963
Interest income on lending	12 320	927	—	13 247
Interest income on investments[2]	4 247	252	—	4 207
Loan fee income	959	10	—	969
Net insurance income	—	—	1 540	1 540
Lending and investment expenses	(4 642)	(506)	—	(4 856)
Interest expense[2]	(4 624)	(506)	—	(4 838)
Loan fee expense	(18)	—	—	(18)
Net lending, investment and insurance income	12 884	683	1 540	15 107
Transaction fee income	13 188	1 345	—	14 533
Transaction fee expense	(3 402)	(616)	—	(4 018)
Net transaction income	9 786	729	—	10 515
Foreign currency income	—	497	—	497
Foreign currency expense	—	(353)	—	(353)
Net foreign currency income	—	144	—	144
Funeral plan income	—	—	906	906
Other income	265	25	—	290
Credit impairments	(3 332)	(176)	—	(3 508)
Net income	19 603	1 405	2 446	23 454
Operating expenses[3]	(10 258)	(1 073)	—	(11 331)
Depreciation	(928)	(73)	—	(1 001)
Amortisation	(180)	(29)	—	(209)
Amortisation of intangible assets – core deposits and client relationships[1]	—	—	—	(14)
Share of net profit of associates and joint ventures	36	—	—	36
Operating profit before tax[1]	8 273	230	2 446	10 935
Income tax expense	(2 356)	(56)	—	(2 412)
Tax on amortisation of intangible assets[1]	—	—	—	4
Profit for the period[1]	5 917	174	2 446	8 527
Assets				
Net loans and advances	54 438	12 111	—	66 549
Other[2]	106 365	5 768	1 156	110 479
Acquisition of Mercantile	—	—	—	915
Goodwill[1]	—	—	—	849
Intangible asset – core deposit intangible[1]	—	—	—	54
Intangible asset – client relationships[1]	—	—	—	12
Total assets[1][2]	160 803	17 879	1 156	177 943

(1) Consolidation entries not included in either segment.

(2) The Retail bank and Business bank assets include an amount of R2.8 billion in investments that eliminates against liabilities at a group level. Interest on the investment amounted to R291 million and is disclosed in Retail bank interest expense and Business bank interest on investments.

(3) Shared services costs have been included in the Retail bank segment as the most significant costs relate to this segment.

6. IFRS 17 *Insurance Contracts*

The group did not early adopt any IFRS standards and of the standards that are not yet effective, management expects IFRS 17 to have a material future impact on the group.

In May 2017, the International Accounting Standards Board issued IFRS 17 with subsequent amendments issued in June 2020. IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023.

In contrast to the previous standard that permitted entities to use a wide variety of accounting practices for insurance contracts which reflected national accounting requirements, IFRS 17 provides a comprehensive model for the measurement of insurance contracts, namely the general measurement model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach), mainly for short-duration contracts.

The fundamental principles of the general measurement model are:

- the measurement of the present value of cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows)
- a contractual service margin that is equal and opposite to any day-one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in the income statement over the service period (coverage period)
- the presentation of insurance revenue and insurance service expenses in the income statement based on the concept of insurance services provided during the period.

The carrying amount of a group of insurance contracts at the end of each reporting period will be the sum of the liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin) and the liability for incurred claims (fulfilment cash flows related to past service).

The standard will be applied retrospectively and the difference between the previous standard and IFRS 17 carrying values, including the related taxation impact, will be recognised as an adjustment to the opening balance of retained earnings on 1 March 2023. The impact of IFRS 17 will only be reliably determined at the date of transition to IFRS 17. This impact is primarily dependent on the finalisation of the group's methodologies, assumptions and estimates, conclusion of audit procedures by the group's external auditors as well as the group's internal reviews and validations.

The group's audit committee and the IFRS 17 steering committee provide oversight over the implementation of IFRS 17. Representatives from the group actively take part in industry discussions to understand and inform the related taxation requirements of IFRS 17.

Statutory and 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)*, AP du Plessis (CFO)* (retired on 30 June 2022), SA du Plessis, CH Fernandez, GR Hardy (CFO)* (appointed on 1 July 2022), MS du Pré le Roux, V Mahlungu, TE Mashilwane, NS Mashiya (executive: risk management)*, DP Meintjes, PJ Mouton, CA Otto, JP Verster

** Executive*

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