Audited summary consolidated financial statements

for the year ended 28 February 2022

CAPITEC
BANK
HOLDINGS LIMITED

(Capitec or the group or the company)

Highlights

Headline earnings per share
+84% to
7 300 cents

Headline earnings
+84% to
R8.4 billion

Final dividend per ordinary share
2 440 cents

Special dividend per ordinary share
1 500 cents

Return on equity
26%

Capital adequacy ratio
36%

Retail clients using digital channels
+17% to
10.1 million

Active clients
+14% to
18.1 million

Key performance indicators

		2022	2021	% change* 2022/2021
Profitability				
Interest income on loans	R'm	13 247	13 401	(1)
Interest income on investments	R'm	4 207	3 143	34
Total interest income	R'm	17 454	16 544	6
Net loan fee income	R'm	951	898	6
Net insurance income	R'm	1 540	965	60
Total lending, investment and insurance income less loan fee expense	R'm	19 945	18 407	8
Interest expense	R'm	(4 838)	(4 985)	(3)
Net lending, investment and insurance income	R'm	15 107	13 422	13
Net transaction income	R'm	10 515	8 708	21
Net foreign currency income	R'm	144	111	30
Other income	R'm	290	114	>100
Funeral plan income	R'm	906	650	39
Income from operations	R'm	26 962	23 005	17
Credit impairments	R'm	(3 508)	(7 825)	(55)
Net income	R'm	23 454	15 180	55
Operating expenses	R'm	(12 555)	(9 463)	33
Share of net profit/(loss) of associates and joint ventures	R'm	36	(7)	>100
Impairment of investments	R'm	—	(122)	
Operating profit before tax	R'm	10 935	5 588	96
Income tax expense	R'm	(2 408)	(1 130)	>100
Profit after tax	R'm	8 527	4 458	91
Preference dividend	R'm	(3)	(4)	(25)
Discount on repurchase of preference shares	R'm	(1)	(2)	(50)
Earnings attributable to ordinary shareholders				
Basic	R'm	8 523	4 452	91
Headline	R'm	8 440	4 586	84
Net transaction, net foreign currency and funeral plan income to net income	%	49	62	
Net transaction, net foreign currency and funeral plan income to operating expenses	%	92	100	
Cost-to-income ratio	%	47	41	
Return on ordinary shareholders' equity	%	26	17	
Earnings per share				
Attributable	cents	7 371	3 850	91
Headline	cents	7 300	3 966	84
Number of shares for calculation	'000	115 627	115 627	
Diluted attributable	cents	7 360	3 848	91
Diluted headline	cents	7 289	3 963	84
Number of shares for calculation	'000	115 800	115 698	
Dividends per ordinary share				
Interim	cents	1 200	—	
Final	cents	2 440	1 600	53
Total	cents	3 640	1 600	>100
Number of shares for calculation	'000	116 100	115 627	
Dividend cover	times	2.0	2.5	
Special dividend	cents	1 500	—	
Assets				
Net loans and advances	R'm	66 549	57 189	16
Cash and financial investments[1]	R'm	97 901	84 625	16
Other	R'm	13 493	14 693	(8)
Total assets	R'm	177 943	156 507	14
Liabilities				
Deposits and wholesale funding	R'm	134 458	120 908	11
Other	R'm	7 720	5 684	36
Total liabilities	R'm	142 178	126 592	12
Equity				
Shareholders' funds (total equity)	R'm	35 765	29 915	20
Capital adequacy ratio (CAR)	%	36	37	
Net asset value per ordinary share	cents	30 888	25 824	20
Number of shares for calculation	'000	115 627	115 627	
Share price	cents	207 435	133 875	55
Market capitalisation	R'm	240 832	154 796	56
Number of shares in issue per the shareholders' register	'000	116 100	115 627	
Share options				
Number outstanding	'000	557	552	1
Number outstanding to shares in issue	%	0.5	0.5	
Average strike price	cents	100 737	91 395	10
Average time to maturity	months	27	30	(10)

			2022	2021	% change* 2022/2021
Operations					
Branches			853	857	
Employees			14 758	14 672	1
Active clients		'000	18 083	15 829	14
ATMs (automated teller machines), DNRs (dual note recyclers) and CNRs (coin and note recyclers)					
Own			2 863	2 660	8
Partnership			4 315	4 065	6
Total			7 178	6 725	7
Capital expenditure		R'm	863	837	3
Credit sales					
Retail bank – value of total loans advanced		R'm	43 932	29 334	50
Value of credit card disbursements/drawdowns		R'm	11 011	9 659	14
Value of access facility disbursements/drawdowns		R'm	14 167	6 398	>100
Value of term loans advanced (net of loan consolidations)		R'm	18 754	13 071	43
Value of credit facility disbursements/drawdowns		R'm	—	206	
Business bank – value of total loans advanced		R'm	53 903	48 918	10
Value of mortgage loans advanced		R'm	2 268	1 553	46
Value of business loans advanced		R'm	2 443	2 245	9
Value of overdraft disbursements/drawdowns		R'm	49 192	45 120	9
Value of total loans advanced		R'm	97 835	78 252	25
Credit book					
Gross loans and advances		R'm	84 108	75 026	12
Up-to-date	Stage 1	R'm	55 297	47 696	16
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	8 641	4 349	99
Forward-looking SICR	Stage 2	R'm	3 059	4 564	(33)
Total up-to-date		R'm	66 997	56 609	18
Arrears	Stage 2	R'm	1 409	1 034	36
Arrears	Stage 3	R'm	1 744	1 904	(8)
Total arrears		R'm	3 153	2 938	7
Application for debt review within 6 months	Stage 3	R'm	141	137	3
COVID-19 reschedules	Stage 2	R'm	659	1 267	(48)
COVID-19 reschedules	Stage 3	R'm	—	61	
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(2)	Stage 2	R'm	151	172	(12)
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(2)	Stage 3	R'm	1 175	2 105	(44)
Up-to-date that rescheduled from arrears (not yet rehabilitated)(2)	Stage 2	R'm	126	92	37
Up-to-date that rescheduled from arrears (not yet rehabilitated)(2)	Stage 3	R'm	1 634	2 403	(32)
Total up-to-date that rescheduled (not yet rehabilitated)(2)		R'm	3 745	6 100	(39)
More than 3 months in arrears and legal status	Stage 3	R'm	10 072	9 242	9
Total provision for credit impairment		R'm	(17 559)	(17 837)	(2)
Net loans and advances		R'm	66 549	57 189	16
Total provision for credit impairment to stage 3 and stage 2 (excluding SICR) coverage		%	103	97	
Gross credit impairment charge on loans and advances		R'm	4 286	8 697	(51)
Bad debts recovered		R'm	818	932	(12)
Net credit impairment charge on loans and advances(3)		R'm	3 468	7 765	(55)
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)		%	4.4	10.3	
Total lending and insurance income (excluding investment income)(4)		R'm	15 756	15 335	3
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)(4)		%	22.0	50.6	
Deposits and wholesale funding					
Wholesale funding		R'm	2 060	2 376	(13)
Call savings		R'm	89 167	78 113	14
Fixed savings		R'm	41 928	39 176	7
Foreign currency deposits		R'm	1 303	1 243	5

* *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) *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.*

(3) *This charge is for loans and advances only. The income statement charge for the year includes R39.6 million (2021: R59.9 million) related to other financial assets.*

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

Commentary

Client-centricity was the cornerstone of 84% growth in headline earnings.

Capitec gives everyone access to simple, affordable and personalised banking that allows them to manage their finances and live better. Our philosophy has been all the more relevant during the global turmoil of the past 2 years and it yielded growth of 84% in headline earnings for the 2022 financial year.

We have a client-centric culture and this is evident in all facets of our business, whether it be product or system design. We offer simple, innovative solutions that meet our clients' needs rather than a multitude of products that do not add value or improve our clients' lives. We maintained a sustainable compound annual growth rate of 17% in headline earnings over the past 5 years and 23% for the past 10 years.

Headline earnings

The group's headline earnings increased to R8.4 billion from R4.6 billion (2020: R6.3 billion). Operating income before credit impairments grew by 17% to R27.0 billion (2021: R23.0 billion; 2020: R21.1 billion).

Interest income on loans was impacted by lower interest rates and clients' migration to the access facility product. Growth in our active client base to 18.1 million clients (2021: 15.8 million; 2020: 13.9 million) and our digital transacting innovations drove transaction volume growth.

Net insurance income from credit life policies increased primarily due to a reduction in claims and a decrease in the incurred but not yet reported (IBNR) provision. Funeral plan income increased due to an increase in active policies and improved collection rates.

Credit impairments decreased by 55% as the full impact of the COVID-19 pandemic was accounted for in the 2021 financial year.

Operating expenses increased by 33% from R9.5 billion to R12.6 billion (2020: R8.6 billion) as we rewarded our people for their commitment and contribution to the group. Our employees are extremely proud and excited to be Capitec shareholders. Almost 10 500 employees benefitted from the Izindaba Ezinhle Employee Share Scheme during February 2022.

Credit impairments and lending income

Credit impairments

The group's credit impairment charge on loans and advances decreased to R3.5 billion (2021: R7.8 billion; 2020: R4.5 billion).

Retail bank

The credit impairment charge on loans and advances decreased by 55% to R3.3 billion (2021: R7.4 billion; 2020: R4.4 billion).

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

R'm	2022	2021	2020
Bad debts written off	6 110	6 311	5 106
Movement in provision for credit impairments	(2 003)	1 978	517
Gross credit impairment charge[(1)]	4 107	8 289	5 623
Bad debts recovered[(2)]	(815)	(929)	(1 263)
Net credit impairment charge	**3 292**	7 360	4 360

[(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 interest received and the credit impairment charge by R1.6 billion for this year (2021: R1.8 billion; 2020: R1.5 billion).*

[(2)] *Bad debts recovered include R0.4 billion (2021: R0.2 billion; 2020: R0.1 billion) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

The gross credit impairment charge was driven by the increase in loan sales and disbursements, changes in the composition and quality of the loan book and the forward-looking macroeconomic expected credit loss (ECL) provision.

Loans advanced and disbursements

Total loans advanced and disbursements increased by 50% from R29.3 billion to R43.9 billion (2020: R39.1 billion).

Access facility disbursements grew by 121% to R14.2 billion (2021: R6.4 billion; 2020: Rnil). Term loans advanced and credit card disbursements were impacted by the migration to the access facility and grew to R18.8 billion (2021: R13.1 billion; 2020: R28.7 billion) and R11.0 billion (2021: R9.7 billion; 2020: R9.8 billion), respectively.

The increase in loans advanced and disbursements is a result of robust growth in new credit clients, especially in the higher income bands and strong take-up of the access facility as clients realise the remote transacting capability this product offers.

In terms of IFRS 9 *Financial Instruments*, a 12-month ECL provision is raised on loans and facilities in the month that they are advanced. The increase in loan sales and disbursements therefore increased the credit impairment charge.

Composition of the loan book

The gross loan book increased by 11% to R71.2 billion (2021: R64.0 billion; 2020: R65.4 billion), mainly during the last 6 months of the year, when credit granting restrictions were eased as COVID-19 concerns waned and economic activity normalised. We actively optimise the portfolio, adjusting granting in response to employer, regional or portfolio risks as necessary.

The composition of the loan book had a positive impact on the credit impairment charge as the book shifted from stage 3 towards stages 1 and 2 during 2022 as reflected in the table below.

R'm	2022	2021	2020
Stage 1	**44 591**	38 711	48 311
Stage 2	**12 758**	10 184	5 618
Stage 3	**13 865**	15 091	11 509
Total gross loan book	**71 214**	63 986	65 438

On average, the stage 1 loan book is impaired by 11%, the stage 2 book by 24% and the stage 3 book by 64%.

The stage 1 loan book increased by R5.9 billion. This was a result of the R14.6 billion increase in loan sales during 2022, offset by an increase of R5.7 billion in repayments. The total movements out of stage 1 into stages 2 and 3 amounted to R20.2 billion for the year (2021: R20.9 billion). Balances moving from stage 1 to stage 3, however, reduced from R10.4 billion in 2021 to R7.1 billion in 2022. COVID-19-related rescheduled balances amounting to R1.1 billion were included in stage 1 at year-end. Balances totalling R4.4 billion rolled back out of stage 2 to stage 1 (2021: R1.2 billion).

Stage 2 up-to-date with SICR balances increased by R4.1 billion to R8.3 billion (2021: R4.2 billion; 2020: R3.5 billion). This reflects a shift from the forward-looking SICR category, which decreased by R1.5 billion to R3.1 billion (2021: R4.6 billion; 2020: R1.0 billion) to the up-to-date with SICR category as the estimated impact of COVID-19 realised in the loan book was at lower levels than expected. The gross decrease in forward-looking SICR was partially offset by the inclusion of the estimated impact of the conflict in Ukraine.

Up-to-date with SICR balances also increased due to the rehabilitation of stage 3 up-to-date reschedules and COVID-19-related reschedules in stages 2 and 3. The rescheduled from up-to-date (not yet rehabilitated) and rescheduled from arrears (not yet rehabilitated) gross books decreased by R0.9 billion and R0.8 billion, respectively, as reschedules rehabilitated and the number of new reschedules normalised after the higher volumes experienced during the COVID-19 lockdowns.

In total, stage 3 gross loans decreased by R1.2 billion. This, together with the decrease of R201 million in write-offs compared to 2021, is a further indicator of an improvement in the quality of the loan book.

The higher proportion of rehabilitated reschedules included in stage 1 contributed to the increase in the stage coverage ratio from 9% to 11%. The provision percentage on these loans is higher than on loans that have not been rescheduled. Improved performance by rescheduled clients is driving the reduction in the coverage ratio in the unrehabilitated rescheduled loans in stage 3.

Balances in arrears for more than 3 months (including debt review and handed-over loans) amounted to R9.3 billion (2021: R8.7 billion; 2020: R7.4 billion). At year-end, R1.0 billion in COVID-19-related rescheduled balances was included in this category. The coverage ratio on these loans decreased to 74% from 82% (2020: 85%) partly due to the fact that the category includes a higher proportion of clients under debt review than in previous years. Balances in debt review have a better repayment expectation than other outstanding balances in this category.

The table below analyses net loans and advances by stage.

R'm	Stage 1 12-month ECL	Stage 2 Lifetime ECL				Stage 3 Lifetime ECL					Total
	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	COVID-19 reschedules[2]	COVID-19 reschedules[2]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	
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)[3]	**(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**
Balance as at 28 February 2021											
Gross loans and advances	38 711	4 220	4 564	1 008	392	24	1 904	2 105	2 403	8 655	63 986
Provision for credit impairments (ECL)[3]	(3 638)	(1 262)	(1 037)	(701)	(136)	(7)	(1 578)	(894)	(837)	(7 094)	(17 184)
Net loans and advances	35 073	2 958	3 527	307	256	17	326	1 211	1 566	1 561	46 802
ECL coverage (%)	9.4	29.9	22.7	69.5	34.7	29.2	82.9	42.5	34.8	82.0	26.9

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

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

(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.*

The improvement in the quality of the loan book, compared to 2021 led to a decrease in the coverage ratios in most categories of gross loans.

Credit quality of the loan book

The credit quality of the loan book is monitored based on the movement in client behaviour scores since the granting of the credit.

Loans and advances are classified as low, medium or high risk based on internally determined behaviour score bands. Provision coverage ratios increase from the low-risk band to the high-risk band.

At the end of the financial year, 56% of the loan book was classified as low risk (2021: 53%), 23% as medium risk (2021: 23%) and 21% as high risk (2021: 24%). This reflects the improvement in the quality of the loan book post the COVID-19 lockdowns which had a positive influence on the credit impairment charge.

Forward-looking macroeconomic provision

The forward-looking component of the credit impairment charge was determined based on the macroeconomic outlook at year-end. The socio-economic and geopolitical uncertainty created by the COVID-19 pandemic and the conflict in Ukraine was incorporated by stressing variables included in the macroeconomic outlook. The macroeconomic factors that have the most significant impact on the loan book were also stressed. These included the petrol price and consumer price index (CPI). The required forward-looking provision for ECLs was determined as R3.0 billion (2021: R3.2 billion; 2020: R0.6 billion).

Indicates information that was audited.

Interest income on loans

Group interest income on loans decreased by 1% to R13.2 billion (2021: R13.4 billion; 2020: R13.6 billion).

Retail bank

Interest income on loans decreased by 2% to R12.3 billion from R12.5 billion (2020: R13.1 billion).

Interest rates

The average interest rate on loans advanced and disbursements is influenced by the movements in the repo rate and the composition of loan sales.

Loans and advances are unsecured and subject to the maximum interest rates prescribed by the National Credit Act. The 2.75% decrease in the repo rate between March and July 2020 impacted loans granted during the 2021 and 2022 financial years. Due to the annuity nature of interest income, the lower interest rates on loans advanced during 2021 had a continued impact on interest income for the 2022 financial year.

The proportion of loan sales represented by term loans advanced continued to decrease. As sales shifted towards the access facility product, the average interest rate on the book decreased because the interest rate on access facilities is significantly lower than on term loans.

Net investment income

Interest income on investments

Interest income on investments increased to R4.2 billion from R3.1 billion (2020: R3.5 billion). The increase is due to the growth in the investment portfolio as well as the yield. The increase in the yield is primarily due to increased investment in South African government bonds as a proportion of the total portfolio. The amount invested in government bonds as at 28 February 2022 was R12.0 billion (2021: R5.0 billion; 2020: Rnil), comprising 15% (2021: 7%) of the total portfolio of R80.5 billion (2021: R70.9 billion).

Interest expense

Interest expense decreased to R4.8 billion from R5.0 billion (2020: R5.7 billion).

Deposits increased by 12% to R132.4 billion (2021: R118.5 billion; 2020: R99.6 billion) which is in line with our client growth.

Wholesale funding decreased by 13% to R2.1 billion (2021: R2.4 billion; 2020: R3.7 billion) as part of our strategy to maintain our presence in the wholesale markets, while not issuing more debt than required.

Net transaction income

Net transaction income increased by 21% to R10.5 billion (2021: R8.7 billion; 2020: R7.4 billion). The prior year net transaction income was affected by lockdown regulations.

Retail bank

Net transaction income increased by 21% to R9.8 billion (2021: R8.1 billion; 2020: R7.4 billion).

Total transaction volumes increased by 26% to 6.7 billion from 5.3 billion (2020: 4.5 billion). The table below illustrates the changes in the proportions of digital, point-of-sale (POS), cash and branch volumes.

%	2022	2021	2020
Transacting channel			
Digital	**40**	42	35
POS	**42**	38	42
Cash	**16**	18	20
Branch	**2**	2	3
	100	100	100

During 2021, the growth and composition of transaction volumes were impacted by the strict lockdown regulations. The portion of digital and POS transaction volumes increased while cash transaction volumes decreased.

As lockdown restrictions eased, POS transaction volumes increased. These changes were expected. Client transactional behaviour has shifted away from cash transacting since 2020. The proportion of cash transaction volumes was further impacted by the civil unrest that occurred during July 2021.

As at the end of February 2022, there were 6.6 million active banking app users (2021: 5.3 million; 2020: 3.4 million). Active digital users of the banking app, USSD channel, internet banking or a combination of digital channels increased by 17% to 10.1 million (2021: 8.6 million; 2020: 6.7 million). Clients performed 1.4 billion digital transactions for the year, an increase of 27% (2021: 1.1 billion; 2020: 0.8 billion).

We encourage our clients to make use of digital channels to manage their banking costs. In March 2022, most of our digital fees remained unchanged for the 4th consecutive year. We have free payment features on our app such as Scan to pay and Pay me using mobile devices.

Pay me was launched in December 2021. This functionality enables clients to generate a personalised quick response (QR) code on our banking app to receive payments immediately and securely from other Capitec clients at no transactional fee. Clients can activate and access their unique Pay me QR code on the banking app or visit a branch to obtain a printed version.

Our Live Better rewards programme

Our Live Better rewards programme offers clients real value with no complicated tiers, points or extra fees. From 1 March 2022, all clients can qualify for 0.5% cash back on their card spend if they reach their monthly bank better goals. In addition, credit card holders get 1% cash back on all their credit card payments. This means debit card clients can get 0.5% and credit card clients 1.5% unlimited cash back.

Clients can also earn cash back and discounts when they spend at our rewards partners. Since the launch of the programme 9 months ago, cash backs amounting to R49 million have been paid and clients benefitted from R4 million in discounts.

With the optional automatic savings tools, Round-up and Interest Sweep, clients have accumulated R300 million in Live Better savings accounts.

Cash back is paid into clients' Live Better savings accounts, which earn a higher interest rate than other GlobalOne call savings accounts, on the 10th of every month.

Insurance income

Net insurance income

Net insurance income from credit life policies increased by 60% to R1.5 billion (2021: R1.0 billion; 2020: R1.0 billion) as a result of the decrease in the total claims paid during the year.

Currently, no reinsurance is held on the policies and Capitec is responsible for retrenchment, death and disability claims. Total claims paid during the year amounted to R0.9 billion (2021: R1.4 billion; 2020: R0.8 billion (before reinsurance recoveries)). The IBNR charge decreased from R0.2 billion to R0.1 billion as the full impact of the pandemic became clearer.

Premium income increased to R3.1 billion (2021: R2.8 billion; 2020: R2.4 billion) due to the increase in insurance rates that was implemented during 2021. This increase was in response to the increased risk resulting from the COVID-19 pandemic. Credit life insurance rates on new credit decreased from 27 August 2021 as this risk has reduced.

Funeral plan income

Funeral plan income increased by 39% to R0.9 billion (2021: R0.7 billion; 2020: R0.4 billion). Collection rates also improved, averaging 87% (2021: 85%; 2020: 75%).

Active funeral policies grew to 1.7 million (2021: 1.2 million; 2020: 0.9 million).

Claims of approximately R2.0 billion (2021: R1.2 billion; 2020: R0.5 billion) were paid out to the families and loved ones of those who passed away. Claims are decreasing steadily now that the COVID-19 pandemic is having less impact.

In addition to premium collection rates and claims ratios, a key indicator of the quality of funeral plan policies issued over time is the persistency of the business. When the funeral book was not yet mature and was growing quickly, persistency over the whole book was a reasonable metric. It is now more meaningful to report on persistency in the 12 months after a policy is issued which is a key driver of overall sustainability. This measure shows a persistency rate of 58% (2021: 49%; 2020: 53%).

Other income and operating expenses

Other income increased from R114 million to R290 million (2020: R32 million). Operating expenses increased by 33% to R12.6 billion (2021: R9.5 billion; 2020: R8.6 billion) and the cost-to-income ratio increased to 47% (2021: 41%; 2020: 41%).

Our people are vital to the continued success of the group and we reward them appropriately for their contribution to the group's performance. Therefore, a significant portion of the increase in operating expenses consisted of employee benefits.

Total employee costs increased by 57% to R7.4 billion (2021: R4.7 billion; 2020: R4.4 billion). Performance bonuses increased to R1.2 billion (2021: R0.3 billion; 2020: R0.5 billion) due to higher growth in headline earnings. Share appreciation rights costs increased to R0.2 billion (2021: R0.1 billion; 2020: R0.1 billion) due to the 55% increase in the share price from R1 338.75 at the end of February 2021 to R2 074.35 at the end of February 2022 (February 2020: R1 299.99). The cost-to-income ratio increased by 3% due to the additional performance bonus and share appreciation rights expenses.

The Izindaba Ezinhle Employee Share Scheme, in terms of which 472 852 Capitec ordinary shares were issued to employees during February 2022, contributed R0.7 billion in employee costs that were recognised in full in the income statement in the current year. The transaction rewarded employees that were permanently employed by the group for at least 3 years. It aligns the interests of employees with those of shareholders. The cost-to-income ratio increased by 3% due to the cost of the scheme.

At the end of the 2022 financial year, we had 14 758 employees (2021: 14 672; 2020: 14 590). We appointed 335 data specialists during the year to assist with our strategic drive towards digitalisation.

The civil unrest that occurred in KwaZulu-Natal and Gauteng during July 2021 resulted in cash losses, the destruction of equipment and property, and additional operating expenses that had to be incurred to continue branch operations. Costs of R106.6 million were recognised in operating expenses. Compensation received from Sasria SOC Limited, at replacement value, amounted to R249.6 million and was recognised in other income.

Business bank

Business bank contributed R174.5 million to group earnings (2021: R1.5 million loss; 2020: R3.0 million). Business bank's gross loan book increased to R12.9 billion (2021: R11.0 billion; 2020: R10.3 billion). Business bank's total active clients, including POS merchants, increased by 10% to 125 270 (2021: 114 072; 2020: 68 422). Business banking accounts grew by 31%.

Credit ratings

On 1 February 2022, S&P Global ratings affirmed the South African Sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook. 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 CAR of 36.3% (2021: 36.7%; 2020: 30.5%).

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 881% and the NSFR is 225%. The regulatory required minimum NSFR is 100% and the LCR requirement, which was temporarily relaxed by the PA, is 90%.

Prospects

The rebranding of Mercantile Bank, the Business banking division of Capitec Bank, to Capitec Business will accelerate client growth. The Business bank offering will encompass the same principles of accessibility, simplicity, affordability and personalised service that our retail clients have grown to expect. We have an opportunity to provide the best digital banking solution to every entrepreneur and small- to medium-sized business.

Technology forms an integral part of our strategy and enables us to create tailored, user-friendly solutions that prompt good financial decision-making by our clients. We are working on innovative features that will enhance our clients' digital experience.

Our Live Better rewards programme is available to all our Retail bank clients. The programme will be expanded, and more partners will be added to ensure we add value to our clients' lives.

Our vision as an employer is to make Capitec the place of choice for world-class talent to unlock their full potential. Our aim is to create greater insights, innovation, experiences and moments that matter, that will inspire our people to continue driving business performance.

Ordinary dividends

A final gross dividend of 2 440 cents per ordinary share (2021: 1 600 cents) was declared on 11 April 2022, bringing the total dividend for the 2022 financial year to 3 640 cents per share (2021: 1 600 cents per share). There are 116 099 843 ordinary shares in issue.

The final dividend meets the definition of a dividend in terms of the Income Tax Act, Act 58 of 1962 (Income Tax Act). The dividend amount, net of South African dividend tax of 20%, is 1 952 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 3 May 2022
Trading *ex*-dividend commences	Wednesday, 4 May 2022
Record date	Friday, 6 May 2022
Payment date	Monday, 9 May 2022

Share certificates may not be dematerialised or rematerialised from Wednesday, 4 May 2022 to Friday, 6 May 2022, both days inclusive.

In addition to the final dividend referred to above, a special dividend of 1 500 cents per ordinary share (2021: nil cents) was declared on 11 April 2022. There are 116 099 843 ordinary shares in issue. Exchange control approval was obtained for the special dividend.

The special dividend meets the definition of a dividend in terms of the Income Tax Act. The dividend amount, net of South African dividend tax of 20%, is 1 200 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 3 May 2022
Trading *ex*-dividend commences	Wednesday, 4 May 2022
Record date	Friday, 6 May 2022
Payment date	Monday, 9 May 2022

Share certificates may not be dematerialised or rematerialised from Wednesday, 4 May 2022 to Friday, 6 May 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

Stellenbosch
12 April 2022

Summary consolidated statement of financial position

As at 28 February 2022

R'm	Audited February 2022	Audited February 2021
Assets		
Cash, cash equivalents and money market funds	**34 239**	49 318
Financial assets at fair value through profit or loss (FVTPL)	**—**	2 970
Financial investments at amortised cost	**62 940**	34 994
Term deposit investments	**722**	313
Net loans and advances	**66 549**	57 189
Other receivables	**3 285**	1 637
Net insurance receivable	**678**	987
Derivative assets	**15**	28
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	**73**	69
Interest in associates and joint ventures	**394**	377
Property and equipment	**3 022**	2 946
Right-of-use assets	**1 909**	2 053
Intangible assets including goodwill	**1 348**	1 481
Deferred income tax asset	**2 769**	2 145
Total assets	**177 943**	156 507
Liabilities		
Derivative liabilities	**34**	66
Current income tax liability	**302**	160
Deposits	**132 398**	118 532
Wholesale funding	**2 060**	2 376
Other liabilities	**4 747**	2 818
Lease liabilities	**2 425**	2 501
Employee benefit liabilities	**212**	139
Total liabilities	**142 178**	126 592
Equity		
Capital and reserves		
Ordinary share capital and premium	**5 649**	5 649
Cash flow hedge reserve	**(12)**	(29)
Other reserves	**(29)**	(36)
Foreign currency translation reserve	**31**	50
Share option reserve	**516**	—
Retained earnings	**29 559**	24 225
Share capital and reserves attributable to ordinary shareholders	**35 714**	29 859
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**51**	56
Total equity	**35 765**	29 915
Total equity and liabilities	**177 943**	156 507

Summary consolidated income statement

Year ended 28 February 2022

R'm	Audited February 2022	Audited February 2021
Lending, investment and insurance income	**19 963**	18 478
Interest income	**17 454**	16 544
Loan fee income	**969**	969
Net insurance income	**1 540**	965
Lending and investment expenses	**(4 856)**	(5 056)
Interest expense	**(4 838)**	(4 985)
Loan fee expense	**(18)**	(71)
Net lending, investment and insurance income	**15 107**	13 422
Transaction fee income[1]	**14 533**	12 040
Transaction fee expense	**(4 018)**	(3 332)
Net transaction income	**10 515**	8 708
Foreign currency income	**497**	409
Foreign currency expense	**(353)**	(298)
Net foreign currency income	**144**	111
Funeral plan income	**906**	650
Other income	**290**	114
Credit impairments	**(3 508)**	(7 825)
Net income	**23 454**	15 180
Operating expenses	**(12 555)**	(9 463)
Share of net profit/(loss) of associates and joint ventures	**36**	(7)
Impairment of investment in associate	**—**	(122)
Operating profit before tax	**10 935**	5 588
Income tax expense	**(2 408)**	(1 130)
Profit for the year	**8 527**	4 458
Earnings per share (cents)		
Basic	**7 371**	3 850
Diluted	**7 360**	3 848

[1] *Transaction fee income consists of: branch, cash and self-service transaction fees in the amount of R5.7 billion (2021: R5.0 billion), digital transaction fees in the amount of R2.1 billion (2021: R1.6 billion), monthly fees, debit orders and other transaction fees in the amount of R4.4 billion (2021: R3.7 billion) and POS transaction fees in the amount of R2.3 billion (2021: R1.7 billion).*

Summary consolidated statement of other comprehensive income

Year ended 28 February 2022

R'm	Audited February 2022	Audited February 2021
Profit for the year	**8 527**	4 458
Other comprehensive income that may subsequently be reclassified to profit or loss	**(2)**	12
Cash flow hedge reserve recognised during the year	**1**	(58)
Cash flow hedge reclassified to profit or loss for the year	**23**	47
Income tax relating to cash flow hedge	**(7)**	3
Foreign currency translation reserve recognised during the year	**(19)**	20
Other comprehensive income that will not subsequently be reclassified to profit or loss	**7**	(31)
Remeasurement of defined benefit obligation	**1**	—
Profit/(Loss) on remeasurement to fair value of financial assets (FVOCI)	**7**	(31)
Income tax thereon	**(1)**	—
Total comprehensive income for the year	**8 532**	4 439

Reconciliation of attributable earnings to headline earnings

Year ended 28 February 2022

R'm	Audited February 2022	Audited February 2021
Net profit after tax	**8 527**	4 458
Preference dividend	**(3)**	(4)
Discount on repurchase of preference shares	**(1)**	(2)
Net profit attributable to ordinary shareholders	**8 523**	4 452
Non-headline items:		
Derecognition of equipment due to the civil unrest	**42**	—
Taxable loss	**58**	—
Income tax	**(16)**	—
Insurance Sasria recoveries on property and equipment related to the civil unrest	**(143)**	—
Taxable profit	**(198)**	—
Income tax	**55**	—
(Profit)/Loss on disposal of property and equipment	**(1)**	12
Taxable loss/(profit)	**12**	(3)
Income tax	**(3)**	1
Non-taxable (profit)/non-tax deductible loss	**(10)**	14
Loss on disposal of intangible assets	**19**	—
Taxable loss	**27**	—
Income tax charge – intangible assets	**(8)**	—
Impairment of associate	**—**	122
Headline earnings	**8 440**	4 586
Basic headline earnings per share (cents)	**7 300**	3 966
Diluted headline earnings per share (cents)	**7 289**	3 963

Summary consolidated statement of changes in equity

Year ended 28 February 2022

R'm	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 29 February 2020	5 649	73	30	(21)	(5)	—	19 855	25 581
Total comprehensive income for the year	—	—	20	(8)	(31)	—	4 458	4 439
Transactions with shareholders and directly recorded in equity	—	(17)	—	—	—	—	(88)	(105)
Ordinary dividend	—	—	—	—	—	—	—	—
Preference dividend	—	—	—	—	—	—	(4)	(4)
Employee share option scheme: value of employee services	—	—	—	—	—	—	32	32
Shares acquired for employee share options at cost	—	—	—	—	—	—	(160)	(160)
Proceeds on settlement of employee share options	—	—	—	—	—	—	72	72
Tax effect on share options	—	—	—	—	—	—	(25)	(25)
Preference shares repurchased	—	(17)	—	—	—	—	(3)	(20)
Balance as at 28 February 2021	**5 649**	**56**	**50**	**(29)**	**(36)**	**—**	**24 225**	**29 915**
Total comprehensive income for the year	**—**	**—**	**(19)**	**17**	**7**	**—**	**8 527**	**8 532**
Transactions with shareholders and directly recorded in equity	**—**	**(5)**	**—**	**—**	**—**	**516**	**(3 193)**	**(2 682)**
Ordinary dividend	**—**	**—**	**—**	**—**	**—**	**—**	**(3 238)**	**(3 238)**
Preference dividend	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**	**(3)**
Employee share option scheme: value of employee services	**—**	**—**	**—**	**—**	**—**	**—**	**54**	**54**
Shares acquired for employee share options at cost	**—**	**—**	**—**	**—**	**—**	**—**	**(69)**	**(69)**
Proceeds on settlement of employee share options	**—**	**—**	**—**	**—**	**—**	**—**	**56**	**56**
Tax effect on share options	**—**	**—**	**—**	**—**	**—**	**—**	**53**	**53**
Fair value of shares utilised for net settlement	**—**	**—**	**—**	**—**	**—**	**—**	**(46)**	**(46)**
Preference shares repurchased	**—**	**(5)**	**—**	**—**	**—**	**—**	**—**	**(5)**
Izindaba Ezinhle Employee Share Scheme	**—**	**—**	**—**	**—**	**—**	**516**	**—**	**516**
Balance as at 28 February 2022	**5 649**	**51**	**31**	**(12)**	**(29)**	**516**	**29 559**	**35 765**

Summary consolidated statement of cash flows

Year ended 28 February 2022

R'm	Audited February 2022	Audited February 2021
Cash flows from operating activities		
Cash flow from operations[(1)]	16 860	31 087
Income tax paid	(2 845)	(1 358)
	14 015	29 729
Cash flows from investing activities		
Acquisition of property and equipment	(746)	(543)
Disposal of property and equipment	11	10
Acquisition of intangible assets	(117)	(294)
Investment in term deposit investments	(1 200)	(3 276)
Redemption of term deposit investments	800	2 976
Acquisition of financial investments at amortised cost	(63 671)	(38 850)
Redemption of financial investments at amortised cost	36 477	21 027
Acquisition of financial assets at FVTPL	—	(1 461)
Redemption of financial assets at FVTPL	2 960	—
Decrease in short-term money market investments	12	14
Interest acquired in associates and joint ventures	—	(25)
Acquisition of subsidiary net of cash acquired	—	(55)
Acquisition of financial investments at FVOCI	(2)	—
Insurance recovery – civil unrest	198	—
	(25 278)	(20 477)
Cash flows from financing activities		
Dividends paid	(3 238)	(6)
Preference shares repurchased	(5)	(20)
Issue of institutional bonds and other funding	750	—
Redemption of institutional bonds and other funding	(1 000)	(1 807)
Payment of lease liabilities	(320)	(248)
Shares acquired for settlement of employee share options	(17)	(160)
Participants' contribution on settlement of options	21	72
	(3 809)	(2 169)
Effect of exchange rate changes on cash and cash equivalents	3	17
Net (decrease)/increase in cash and cash equivalents	(15 069)	7 100
Cash and cash equivalents at the beginning of the year	49 309	42 209
Cash and cash equivalents at the end of the year[(2)]	34 240	49 309

[(1)] Includes cash inflow from interest received of R16.7 billion (2021: R16.7 billion) and cash outflow from interest paid of R4.9 billion (2021: R5.0 billion).

[(2)] Cash and cash equivalents before deduction of provision for impairments (ECL) and excluding money market funds in the amount of Rnil (2021: R12 million).

Notes to the summary consolidated financial statements

Year ended 28 February 2022

1. Basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of the International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee on Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The accounting policies applied in the preparation of the 2022 consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those applied in the 2021 consolidated financial statements other than for the addition of a policy to account for the Izindaba Ezinhle Employee Share Scheme. An issue of shares to the employees of the Capitec Bank Limited group was undertaken in terms of this policy during February 2022.

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

In calculating the ECL for the year, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historical data is used to project ECL. The impact of continued economic strain on ECL is exacerbated by global geopolitical tension. This was considered by applying macroeconomic information available at 28 February 2022 and stressing macroeconomic variables for petrol prices and CPI, being the variables directly impacted by the global geopolitical tension.

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

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

The directors take full responsibility for the preparation of the preliminary report and that these summary consolidated financial statements were correctly derived from the annual financial statements.

These summary consolidated financial statements for the year ended 28 February 2022 have been audited jointly by PricewaterhouseCoopers Inc. and Deloitte & Touche, who expressed an unmodified opinion thereon. The joint auditors also expressed an unmodified opinion on the annual financial statements from which these summary consolidated financial statements were derived. The audited financial statements and the auditors' report thereon are available for inspection at the company's registered office and on the company's website at **www.capitecbank.co.za**.

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

2. Net loans and advances

Retail bank

R'm	Stage 1 12-month ECL	Stage 2 Lifetime ECL				Stage 3 Lifetime ECL					Total
	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	COVID-19 reschedules[2]	COVID-19 reschedules[2]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	
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)[3]	**(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**
Balance as at 28 February 2021											
Gross loans and advances	38 711	4 220	4 564	1 008	392	24	1 904	2 105	2 403	8 655	63 986
Provision for credit impairments (ECL)[3]	(3 638)	(1 262)	(1 037)	(701)	(136)	(7)	(1 578)	(894)	(837)	(7 094)	(17 184)
Net loans and advances	35 073	2 958	3 527	307	256	17	326	1 211	1 566	1 561	46 802
ECL coverage (%)	9.4	29.9	22.7	69.5	34.7	29.2	82.9	42.5	34.8	82.0	26.9

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

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

(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.*

Business bank

	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	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 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 (%)	**1.8**	**1.1**	**22.0**	**41.3**	**10.4**	**7.4**	**17.1**		**40.4**	**6.1**
Balance as at 28 February 2021										
Gross loans and advances	8 895	90	129	26	172	92	875	37	724	11 040
Provision for credit impairments (ECL)[2][3]	(203)	(1)	(14)	(5)	(11)	(10)	(98)	(6)	(305)	(653)
Net loans and advances	8 692	89	115	21	161	82	777	31	419	10 387
ECL coverage (%)	2.3	1.5	10.4	19.4	6.5	10.9	11.3	13.3	42.2	5.9

(1) *COVID-19-related reschedules prior to the PA 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.*

3. Commitments and contingent liabilities

R'm	Audited February 2022	Audited February 2021
Capital commitments – approved by the board		
Contracted for:		
Property and equipment	**180**	264
Intangible assets	**27**	134
Not contracted for:		
Property and equipment	**786**	676
Intangible assets	**247**	257
	1 240	1 331
Loan commitments	**11 483**	5 139
Retail bank	**11 301**	4 924
Business bank	**182**	215
Guarantees – Business bank	**689**	579
Letters of credit	**12**	3
	12 184	5 721
Contingent liabilities		
VAT	**27**	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 year.

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	Audited February 2022	Audited February 2021	Classification	Hierarchy of valuation technique
Financial assets				
Cash, cash equivalents and money market funds	**34 239**	49 318	At amortised cost	Level 2
Financial assets at FVTPL	**—**	2 970	At FVTPL	Level 2
Term deposit investments	**722**	313	At amortised cost	Level 2
Financial investments at amortised cost	**62 797**	34 815	At amortised cost	Level 2
Financial assets – equity instruments at FVOCI	**73**	69	At FVOCI	Level 3
Net loans and advances – Retail	**55 989**	47 559	At amortised cost	Level 3
Net loans and advances – Business	**5 565**	4 972	At amortised cost	Level 3
Net loans and advances – Mortgage	**6 547**	5 415	At amortised cost	Level 3
Other receivables	**2 648**	1 516	At amortised cost	Level 2
Funeral plan income receivable	**478**	525	At FVTPL	Level 3
Derivative assets	**15**	28	At FVTPL	Level 2
Financial liabilities				
Deposits and bonds	**136 011**	120 833	At amortised cost	Level 2
Derivative liabilities	**34**	66	At FVTPL	Level 2
Trade and other payables	**2 218**	1 735	At amortised cost	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, 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 that the group derives its revenue from. 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

The 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 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.

The segmental disclosure for the Insurance operating segment was previously included in the Retail bank operating segment. During the year, the CODM began regularly reviewing the Insurance operating results separately. The comparative segmental disclosure has been adjusted to separately disclose the information for the Insurance operating segment.

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	February 2022 Retail bank	February 2022 Business bank	February 2022 Insurance[4]	February 2022 Total	February 2021 Retail bank	February 2021 Business bank	February 2021 Insurance[4]	February 2021 Total
Lending, investment and insurance income	17 526	1 189	1 540	19 963	16 533	1 099	965	18 478
Interest income on lending	12 320	927	—	13 247	12 531	870	—	13 401
Interest income on investments[2]	4 247	252	—	4 207	3 037	225	—	3 143
Loan fee income	959	10	—	969	965	4	—	969
Net insurance income	—	—	1 540	1 540	—	—	965	965
Lending and investment expenses	(4 642)	(506)	—	(4 856)	(4 679)	(496)	—	(5 056)
Interest expense[2]	(4 624)	(506)	—	(4 838)	(4 608)	(496)	—	(4 985)
Loan fee expense	(18)	—	—	(18)	(71)	—	—	(71)
Net lending, investment and insurance income	12 884	683	1 540	15 107	11 854	603	965	13 422
Transaction fee income	13 188	1 345	—	14 533	10 892	1 148	—	12 040
Transaction fee expense	(3 402)	(616)	—	(4 018)	(2 798)	(534)	—	(3 332)
Net transaction income	9 786	729	—	10 515	8 094	614	—	8 708
Foreign currency income	—	497	—	497	—	409	—	409
Foreign currency expense	—	(353)	—	(353)	—	(298)	—	(298)
Net foreign currency income	—	144	—	144	—	111	—	111
Funeral plan income	—	—	906	906	—	—	650	650
Other income	265	25	—	290	111	3	—	114
Credit impairments	(3 332)	(176)	—	(3 508)	(7 420)	(405)	—	(7 825)
Net income	19 603	1 405	2 446	23 454	12 639	926	1 615	15 180
Operating expenses[3][5]	(10 258)	(1 073)	—	(11 331)	(7 507)	(714)	—	(8 221)
Depreciation[5]	(928)	(73)	—	(1 001)	(857)	(144)	—	(1 001)
Amortisation[5]	(180)	(29)	—	(209)	(178)	(49)	—	(227)
Amortisation of intangible assets – core deposits and client relationships[1]	—	—	—	(14)	—	—	—	(14)
Share of net profit of associates and joint ventures	36	—	—	36	(7)	—	—	(7)
Impairment of investment in associate	—	—	—	—	(122)	—	—	(122)
Operating profit before tax[1]	8 273	230	2 446	10 935	3 968	19	1 615	5 588
Income tax expense	(2 356)	(56)	—	(2 412)	(1 114)	(20)	—	(1 134)
Tax on amortisation of intangible assets[1]	—	—	—	4	—	—	—	4
Profit for the year[1]	5 917	174	2 446	8 527	2 854	(1)	1 615	4 458
Assets								
Net loans and advances	54 438	12 111	—	66 549	46 802	10 387	—	57 189
Other[2]	106 365	5 768	1 156	110 479	94 385	7 449	1 512	98 389
Acquisition of Mercantile	—	—	—	915	—	—	—	929
Goodwill[1]	—	—	—	849	—	—	—	849
Intangible asset – core deposit intangible[1]	—	—	—	54	—	—	—	66
Intangible asset – client relationships[1]	—	—	—	12	—	—	—	14
Total assets[1][2]	160 803	17 879	1 156	177 943	141 187	17 836	1 512	156 507

(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 expenses 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.

(4) Comparative disclosures have been updated to disclose Insurance as a separate segment due to the transfer of the cell captives and the CODM starting to separately review the insurance operating results.

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

Independent auditors' report on the summary consolidated financial statements

To the Shareholders of Capitec Bank Holdings Limited

Opinion

The summary consolidated financial statements of Capitec Bank Holdings Limited, set out on pages 10 to 21 of the preliminary report titled Audited summary consolidated financial statements for the year ended 28 February 2022, which comprise the summary consolidated statement of financial position as at 28 February 2022, the summary consolidated income statement and the summary consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Capitec Bank Holdings Limited for the year ended 28 February 2022.

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

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

Other matter

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

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 12 April 2022. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

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

Auditors' responsibility

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane, Waterfall City, South Africa

12 April 2022

Deloitte & Touche

Deloitte & Touche
Per Partner: Darren Shipp
Registered Auditor

Johannesburg
5 Magwa Crescent, Waterfall City, South Africa

12 April 2022

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*)*, SA du Plessis, CH Fernandez, MS du Pré le Roux, V Mahlungu, TE Mashilwane, NS Mashiya (*executive: risk management*)*, JD McKenzie (retired on 28 May 2021), DP Meintjes, PJ Mouton, CA Otto, JP Verster

* *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)

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