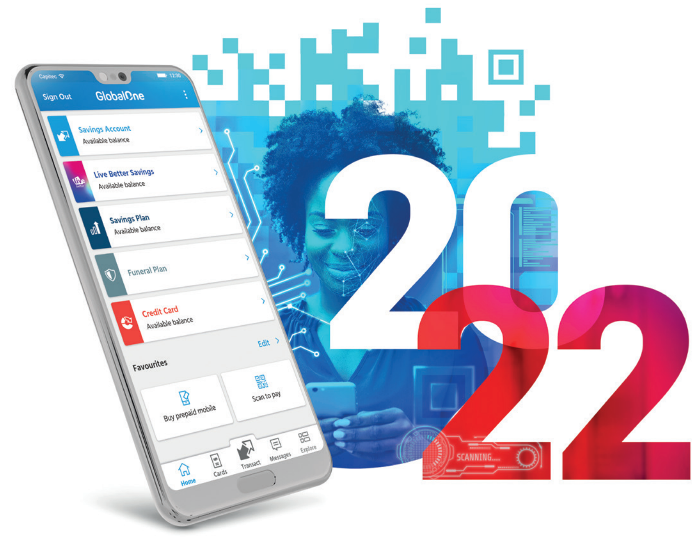

unaudited financial results

Headline earnings per share
+513%
to R3.987 billion

Return on equity
27%

Interim dividend per share
1 200
cents

CAPITEC BANK HOLDINGS LIMITED

for the 6 months ended 31 August 2021

Key performance indicators

			6 months ended August 2021	2020	August 2021/2020 %	Year ended February 2021
Profitability						
Interest income on loans		R'm	**6 572**	6 712	(2)	13 401
Interest income on investments		R'm	**1 908**	1 692	13	3 143
Total interest income		R'm	**8 480**	8 404	1	16 544
Net loan fee income		R'm	**468**	468	–	898
Net insurance income		R'm	**571**	498	15	965
Total lending, investment and insurance income less loan fee expense		R'm	**9 519**	9 370	2	18 407
Interest expense		R'm	**(2 317)**	(2 652)	(13)	(4 985)
Net lending, investment and insurance income		R'm	**7 202**	6 718	7	13 422
Net transaction income		R'm	**5 150**	3 870	33	8 708
Net foreign currency income		R'm	**73**	47	55	111
Other income		R'm	**24**	7	>100	114
Funeral plan income		R'm	**366**	350	5	650
Income from operations		R'm	**12 815**	10 992	17	23 005
Credit impairments		R'm	**(2 068)**	(6 086)	(66)	(7 825)
Net income		R'm	**10 747**	4 906	>100	15 180
Operating expenses(1)		R'm	**(5 716)**	(4 319)	32	(9 463)
Share of net profit/(loss) of associates and joint ventures		R'm	**11**	(20)		(7)
Impairment of investments		R'm	**–**	(29)		(122)
Operating profit before tax		R'm	**5 042**	538	>100	5 588
Income tax expense		R'm	**(1 124)**	86		(1 130)
Profit after tax for the period		R'm	**3 918**	624	>100	4 458
Preference dividend		R'm	**(2)**	(2)	–	(4)
Discount on repurchase of preference shares		R'm	**–**	(1)		(2)
Earnings attributable to ordinary shareholders						
Basic		R'm	**3 916**	621	531	4 452
Headline		R'm	**3 987**	650	513	4 586
Net transaction income and funeral plan income to net income		%	**51**	86		62
Net transaction income and funeral plan income to operating expenses(1)		%	**97**	98		99
Cost-to-income ratio(1)		%	**45**	39		41
Return on ordinary shareholders' equity		%	**27**	5		17
Earnings per share						
Attributable		cents	**3 387**	537	531	3 850
Headline		cents	**3 447**	562	513	3 966
Diluted attributable		cents	**3 383**	537	530	3 848
Diluted headline		cents	**3 444**	562	513	3 963
Dividends per share						
Interim		cents	**1 200**	–		–
Final		cents				1 600
Total		cents				1 600
Dividend cover		times	**2.9**			2.5
Assets						
Net loans and advances		R'm	**59 486**	55 517	7	57 189
Cash and financial investments(2)		R'm	**93 165**	74 545	25	84 625
Other		R'm	**14 096**	14 458	(3)	14 693
Total assets		R'm	**166 747**	144 520	15	156 507
Liabilities						
Deposits and wholesale funding		R'm	**129 191**	113 049	14	120 908
Other		R'm	**5 600**	5 377	4	5 684
Total liabilities		R'm	**134 791**	118 426	14	126 592
Equity						
Shareholders' funds		R'm	**31 956**	26 094	22	29 915
Capital adequacy ratio		%	**37**	30		37
Net asset value per ordinary share		cents	**27 637**	22 511	23	25 872
Share price		cents	**189 770**	83 500	>100	133 875
Market capitalisation		R'm	**219 425**	96 549	>100	154 796
Number of shares in issue		'000	**115 627**	115 627	–	115 627
Share options						
Number outstanding		'000	**554**	496	12	552
Number outstanding to shares in issue		%	**0.5**	0.4		0.5
Average strike price		cents	**101 424**	83 368	22	91 395
Average time to maturity		months	**33**	28		30
Operations						
Branches			**852**	863	(1)	857
Employees			**14 789**	14 738		14 672
Active clients		'000	**16 811**	14 681	15	15 829
ATMs, DNRs (dual note recyclers) and CNRs (coin and note recyclers)						
Own			**2 823**	2 379	19	2 660
Partnership			**4 264**	3 378	26	4 065
Total			**7 087**	5 757	23	6 725
Capital expenditure		R'm	**469**	494	(5)	837
Credit sales						
Value of credit card disbursements/drawdowns		R'm	**5 460**	4 701	16	10 039
Value of access facility disbursements/drawdowns		R'm	**6 235**	1 479	>100	6 398
Value of term loans advanced (net of loan consolidations)		R'm	**8 437**	6 303	34	14 262
Value of credit facility disbursements/drawdowns		R'm	**–**	178		206
Value of mortgage loans advanced		R'm	**611**	458	33	1 553
Value of business loans advanced		R'm	**531**	134	>100	674
Value of overdraft disbursements/drawdowns(3)		R'm	**22 146**	20 722	7	45 120
Value of total loans advanced		R'm	**43 420**	33 975	28	78 252
Credit book						
Gross loans and advances		R'm	**77 681**	73 853	5	75 026
Up-to-date	Stage 1	R'm	**49 478**	46 288	7	47 696
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	**6 426**	2 036	>100	4 349
Forward-looking SICR(4)	Stage 2	R'm	**4 566**	2 662	72	4 564
Total up-to-date		R'm	**60 470**	50 986	19	56 609
Arrears	Stage 2	R'm	**1 207**	701	72	1 034
Arrears	Stage 3	R'm	**1 536**	2 057	(25)	1 904
Total arrears		R'm	**2 743**	2 758	(1)	2 938
Application for debt review within 6 months	Stage 3	R'm	**155**	74	>100	137
COVID-19 reschedules	Stage 2	R'm	**798**	5 387	(85)	1 267
COVID-19 reschedules	Stage 3	R'm	**35**	485	(93)	61
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(5)	Stage 2	R'm	**148**	216	(31)	172
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(5)	Stage 3	R'm	**1 503**	2 880	(48)	2 105
Up-to-date that rescheduled from arrears (not yet rehabilitated)(5)	Stage 2	R'm	**83**	86	(3)	92
Up-to-date that rescheduled from arrears (not yet rehabilitated)(5)	Stage 3	R'm	**1 827**	2 359	(23)	2 403
Total up-to-date that rescheduled (not yet rehabilitated)(5)		R'm	**4 394**	11 413	(62)	6 100
More than 3 months in arrears and legal status	Stage 3	R'm	**9 919**	8 622	15	9 242
Total provision for credit impairment		R'm	**(18 195)**	(18 336)	(1)	(17 837)
Net loans and advances		R'm	**59 486**	55 517	7	57 189
Total provision for credit impairments to stage 3 and stage 2 (excluding SICR) coverage		%	**106**	80		97
Gross credit impairment charge on loans and advances		R'm	**2 531**	6 561	(61)	8 757
Bad debts recovered		R'm	**502**	475	6	932
Net credit impairment charge on loans and advances(6)		R'm	**2 029**	6 086	(67)	7 825
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)		%	**2.7**	8.1		10.4
Total lending and insurance income (excluding investment income)(7)		R'm	**7 624**	7 706	(1)	15 335
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)(7)		%	**26.6**	79.0		51.0
Deposits and wholesale funding						
Wholesale funding		R'm	**1 340**	2 683	(50)	2 376
Call savings		R'm	**83 378**	70 094	19	78 113
Fixed savings		R'm	**42 968**	39 326	9	39 176
Foreign currency deposits		R'm	**1 505**	946	59	1 243

(1) *Operating expenses for the 6 months ended August 2020 have been restated by splitting the impairment of investments into a separate line.*
(2) *Cash, cash equivalents, money market funds, term deposits and other financial investments.*
(3) *Overdraft disbursements/drawdowns are gross of repayments.*
(4) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two categories.*
(5) *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.*
(6) *This charge is for loans and advances only. The income statement charge for the current period includes R39 million related to other financial assets.*
(7) *Interest received on loans, initiation fees, monthly service fees and net insurance income.*

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Due to the unusual circumstances during the past 18 months, the commentary for the period to August 2021 references both the comparative period to August 2020 and the immediately preceding 6-month period to February 2021.

The impact of the COVID-19 pandemic on the South African economy during the past 18 months was challenging but has also presented opportunities to enhance our clients' experience with new digital solutions. Our digital offering expanded and our continued commitment to personal service was demonstrated by our branch network and call centres.

Our results reflect the success of our digitalisation journey. Recent developments include the capability for any prospective client to download our retail banking app, scan their face and identity document and open a Global One account in realtime, as well as the option to have their card delivered within 3 working days. Virtual Global One cards with no transaction fees, designed for safer online shopping, can now be created via our app. The volume of transactions using the Scan to pay functionality across all major QR codes continues to grow. Enhancements were also made to internet banking for our Business bank clients. The success of our innovations resulted in Capitec winning the Internet Banking and Mobile Banking categories of the SITEisfaction® 2021 survey and we were voted South Africa's best digital bank for 2021. We were also recently voted the Coolest Bank by South Africa's youth in the 2021 Sunday Times Generation Next Awards.

The challenges created by the COVID-19 pandemic and the recent civil unrest in South Africa were met with resilience and determination by our branch employees. Our innovators responded with agility, and we are incredibly proud of the continued contribution and commitment of all our employees. We thank every employee for the part they continue to play in realising our vision of being the preferred retail and business bank in South Africa.

The business proved its ability to adapt rapidly to prevailing circumstances. Following the civil unrest that resulted in the temporary unavailability of some branches in KwaZulu-Natal and Gauteng, the services offered by our call centres were bolstered by the multi-skilled employees from the affected branches. The capacity of our online lending team was strengthened and clients can now apply for credit cards and access facilities telephonically.

The business' client-centric vision remains unchanged by the ongoing uncertain global and local conditions, and we thank our clients for their continued confidence in Capitec as their bank of choice.

Headline earnings

Headline earnings increased to R3.987 billion for the 6 months ended August 2021 from R650 million for the comparative period (February 2021*: R3.936 billion). During the past 18 months, the drivers of the group's results were impacted differently by socio-economic conditions during each 6-month period.

Headline earnings for the first half of the 2021 financial year was driven by the necessity to meet the challenges of the COVID-19 pandemic and the hard lockdowns in South Africa. The period was characterised by the assistance offered to clients impacted by the shutdown of some sectors of the economy, a change in clients' transacting behaviour, the tightening of credit granting criteria and a focus on cost containment.

The focus during the second half of the 2021 financial year was on ensuring that clients and the business reaped benefits from the opportunities for innovation that were presented by the lockdowns. Transaction volumes recovered and as restrictions eased, lending criteria were managed proactively based on the socio-economic climate. We exceeded our target of achieving headline earnings similar to the 6 months ended February 2020, by 18%.

The results for the 6-month period ended August 2021 reflect the continuing impact of the 2020 lockdowns, the third wave of the pandemic and the status of the vaccination campaign during the period. There was a shift in client behaviour towards digital and point-of-sale (POS) transactions and a gradual return to pre-pandemic lending criteria. Headline earnings stabilised at the level seen for the 6 months ended February 2021. The composition of the results was, however, significantly different to the comparative 6 months ended August 2020.

Throughout the past 18 months, the growth in active client numbers was consistent and contributed to the recovery in headline earnings after August 2020. As at the end of August 2021, our active client base numbered 16.8 million (August 2020: 14.7 million; February 2021: 15.8 million).

Credit income, credit impairments and loan book

Interest income on loans

Interest income on loans decreased by 2% to R6.6 billion (August 2020: R6.7 billion; February 2021*: R6.7 billion).

Retail bank

Interest income on loans for the period ended August 2021 decreased by 3% to R6.1 billion (August 2020: R6.3 billion; February 2021*: R6.3 billion). The decrease was attributable to a number of factors.

Decrease in the repo rate

Lending rates were impacted by the decrease in the repo rate during the course of 2020. The Retail bank's lending business is subject to the maximum interest rate on unsecured lending as prescribed by the National Credit Regulator. The incremental decreases in the repo rate resulted in decreases in the maximum prescribed interest rate that cascaded through our risk-based interest rates on new loans and disbursements. The repo rate decreased from 6.25% per annum in March 2020 to 3.5% per annum at the end of July 2020.

Loan sales and disbursements

Loan sales and disbursements for the 2021 financial year decreased by 25% compared to the previous financial year due to the impact of the COVID-19 pandemic. This decrease impacted the annuity income earned from the loan book during the current period. Improved loan sales during the 6 months ended August 2021 partially mitigated this impact.

At the start of the COVID-19 pandemic, increased credit risk was addressed by applying significant credit granting restrictions on specific industries and to smaller-sized employers. Measured relaxation of credit granting criteria back to pre-COVID-19 levels is in progress. We are monitoring industries such as tourism and hospitality that are still impacted by the pandemic as well as those impacted by the civil unrest during July 2021.

Total loan sales and disbursements increased by 68% to R19.7 billion (August 2020: R11.7 billion; February 2021*: R17.6 billion). The increase was mainly due to the proactive management of credit granting criteria throughout the pandemic. Criteria were continually adjusted based on the expected impact of the pandemic on industry, employer and client income groups.

The rapid success of our access facility product since it was launched in May 2020 changed the sales mix. Term loan sales were impacted by clients' preference for the access facility which is granted at significantly lower interest rates than a term loan. The change in the composition of loan sales and disbursements is illustrated in the table below.

%	6 months ended August 2021	February 2021	August 2020
Term loans	**41**	43	47
Access facilities	**32**	28	13
Credit cards	**27**	29	39
Credit facilities	**–**	–	1
	100	100	100

Term loan sales grew to R8.2 billion (August 2020: R5.5 billion; February 2021*: R7.5 billion). Access facility disbursements were R6.2 billion (August 2020: R1.5 billion; February 2021*: R4.9 billion). Credit card disbursements, also affected by the access facility, grew to R5.3 billion compared to February 2021* (August 2020: R4.5 billion; February 2021*: R5.1 billion).

We are building our purpose lending portfolio by continually negotiating new partnerships. Clients can apply for finance for home improvements at CTM, vehicle finance at WeBuyCars and MotoData, medical treatment at Mediclinic and education at Stadio. Purpose loans are granted at better interest rates than the rates that are applicable to term loans, with some rates as low as the prime lending rate.

Lending clients totalled 1.1 million (August 2020: 1.0 million; February 2021: 1.1 million).

Credit impairments

Group net credit impairments on loans and advances decreased by 67% to R2.0 billion (August 2020: R6.1 billion; February 2021*: R1.7 billion) as the full impact of the COVID-19 pandemic was accounted for in the first half of the 2021 financial year. Loan book performance did not indicate that additional impairments were required.

Retail bank

The gross credit impairment charge was R2.4 billion (August 2020: R6.3 billion; February 2021*: R2.0 billion).

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

R'm	6 months ended August 2021	February 2021	August 2020
Bad debts written off	**2 958**	3 427	2 884
Movement in provision for credit impairments	**(525)**	(1 434)	3 412
Gross credit impairment charge	**2 433**	1 993	6 296
Bad debts recovered	**(496)**	(454)	(475)
Net credit impairment charge	**1 937**	1 539	5 821

During the 6 months ended August 2020, COVID-19-related reschedules (including payment breaks) were granted on R7.5 billion in balances. Higher expected credit loss (ECL) provisions are held on up-to-date rescheduled loans than on up-to-date loans in stage 1 and loans in stage 2 that show significant increases in credit risk (SICR), and this contributed to the high gross credit impairment charge for the period. Good payment behaviour on the COVID-19-related reschedules contributed to the decrease in the gross credit impairment charge for the last 6 months of the 2021 financial year.

The gross credit impairment charge for the 6 months ended August 2021 reflects the increase in loan sales and disbursements as well as changes in the composition of the loan book. Credit disbursed grew by R8.0 billion compared to the 6 months ended August 2020 and by R2.1 billion compared to February 2021*, increasing the impairment charge. The 12-month ECL on new credit is charged at an average of between 5% and 7% in the month in which it is originated. 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 as reflected in the table below.

R'm	At the end of August 2021	February 2021	August 2020
Stage 1	**40 090**	38 711	37 257
Stage 2	**11 811**	10 184	10 269
Stage 3	**14 194**	15 091	15 871
Total gross loan book	**66 095**	63 986	63 397

As at the end of August 2021, the stage 1 loan book was impaired by 12%, the stage 2 book by 26% and the stage 3 book by 69% (August 2020: 9%, 30% and 72%, respectively). Within balances in arrears by up to 3 months, there was a higher proportion that was only 1 month in arrears than was previously the case. The default book grew as the number of clients going into debt review increased. Clients in debt review are impaired at a lower percentage than other clients in default as recoveries on debt review clients are higher, and therefore the provision percentage decreased compared to the 6 months ended August 2020.

The impact of forward-looking information is taken into consideration when determining ECLs. Our forward-looking view of the South African economy led to a credit impairment charge of R4.2 billion in the period ended August 2020 based on our assessment of the impact of the lockdowns on the different sectors of the economy.

Our view at the end of February 2021 was based on independently sourced economic data and the remaining uncertainty surrounding the timing of future defaults related to the pandemic's impact on the economy. This resulted in a release of R1.7 billion of the forward-looking impairment charge. The full year credit impairment charge for the 2021 financial year included R2.5 billion related to our forward-looking view of the economy.

As at the end of August 2021, although South Africa has passed the third wave of COVID-19 infections and the roll-out of vaccinations has accelerated, the socio-economic climate is still uncertain. We continually assess the impact of forward-looking macroeconomic information on ECLs. The unemployment rate is one of our main considerations because the Retail bank lends exclusively to individuals. The Quarterly Labour Force Survey for the second quarter of 2021, released by Statistics South Africa, showed that unemployment is at a record high at 34.4% (Q1 2021: 32.6%). This, together with the outlook for other macroeconomic indicators, prompted us to maintain a conservative approach to ECLs during the period. The forward-looking ECL provision remained at R3.2 billion as reported at the end of February 2021.

Loan book

The group's gross loans and advances grew by 5% to R77.7 billion (August 2020: R73.9 billion; February 2021: R75.0 billion). ECL provisions totalled R18.2 billion (August 2021: R18.3 billion; February 2021: R17.8 billion). The Business bank gross loan book grew by 11% to R11.6 billion. Business bank ECL provisions increased to R711 million (August 2020: R570 million; February 2021: R653 million).

Retail bank

The gross loan book grew by 4% to R66.1 billion (August 2020: R63.4 billion; February 2021: R64.0 billion) as a result of the gradual increase in loan sales and disbursements as credit criteria were relaxed.

The up-to-date gross loans and advances book (excluding balances showing signs of SICR) represents 61% of the total gross retail loan book and increased to R40.0 billion (August 2020: R37.3 billion; February 2021: R38.7 billion). The coverage ratio is currently at 11.8% (August 2020: 8.9%; February 2021: 9.4%). The higher coverage ratio results from the higher proportion of rehabilitated rescheduled loans included in the book due to the rehabilitation of COVID-19-related reschedules. The ECL provision on these loans is higher than on a loan that has not been rescheduled.

Up-to-date loans with SICR (including clients that applied for debt review less than 6 months ago) grew by R4.2 billion to R6.1 billion compared to the period ended August 2020 (August 2020: R1.9 billion; February 2021: R4.2 billion). The increase arose due to loan balances rolling out of the COVID-19-related categories into up-to-date.

All the COVID-19 reschedules have moved into other stages of the book (August 2020: R5.5 billion; February 2021: R416 million). Of the R7.5 billion loan balances that were rescheduled, 59% are rehabilitated and up-to-date or were settled, 11% were rescheduled again and have not yet made 6 consecutive payments, 15% were in arrears and 15% were either handed over, in debt review or written off at the end of August 2021.

As clients increasingly move into debt review from loans rescheduled from arrears (not yet rehabilitated), the better performing clients make up a greater proportion of this loan category. The ECL coverage percentage is therefore lower than the ECL coverage percentage on rescheduled from up-to-date (not yet rehabilitated) loans.

Balances in arrears for more than 3 months (including debt review and handed-over loans) amounted to R9.3 billion (August 2020: R8.1 billion; February 2021: R8.7 billion). The coverage ratio on these loans decreased to 80.6% from 88.9% at the end of August 2020 (February 2021: 82.0%) as the number of clients in debt review included in this category continued to increase as a proportion of the total.

Retail loan book by stage

R'm	Stage 1: Up-to-date	Stage 2: Up-to-date loans with SICR and applied for debt review >6 months	Stage 2: Forward-looking SICR(1)	Stage 2: Up to 1 month in arrears	Stage 2: COVID-19 reschedules(2)	Stage 3: COVID-19 reschedules(2)	Stage 3: 2 and 3 months in arrears	Stage 3: Rescheduled from up-to-date (not yet rehabilitated)	Stage 3: Rescheduled from arrears (not yet rehabilitated)	Stage 3: More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 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)(3)	**(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**
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
Balance as at 31 August 2020											
Gross loans and advances	37 257	1 924	2 662	686	4 997	469	2 057	2 880	2 359	8 106	63 397
Provision for credit impairments (ECL)(3)	(3 303)	(479)	(624)	(382)	(1 626)	(136)	(1 603)	(1 192)	(1 214)	(7 207)	(17 766)
Net loans and advances	33 954	1 445	2 038	304	3 371	333	454	1 688	1 145	899	45 631
ECL coverage (%)	8.9	24.9	23.4	55.7	32.5	29.0	77.9	41.4	51.5	88.9	28.0

(1) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into 2 categories.*
(2) *COVID-19-related reschedules prior to the Prudential Authority Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*
(3) *For agreements that contain both a drawn and an undrawn component, the group cannot separately identify the undrawn component of the ECL and therefore the combined ECL is recognised against the loan component. To the extent that the combined ECL exceeds the gross carrying amount of the loan, the excess is recognised as an additional provision.*

Net investment income

Group interest income on investments as well as interest expenses were impacted by the decrease in the repo rate from 6.25% per annum in March 2020 to 3.5% per annum as at the end of July 2020.

Interest income on investments

Group interest income on investments grew by 13% to R1.9 billion compared to the 6 months ended August 2020 (August 2020: R1.7 billion; February 2021*: R1.4 billion). The impact of the decrease in the repo rate on income was mitigated by growth in the average investment portfolio as well as by adjusting the composition of the portfolio.

Interest expense

Group interest expenses decreased by 13% to R2.3 billion (August 2020: R2.7 billion; February 2021*: R2.3 billion).

Deposits grew by 16% (February 2021: 8%) and totalled R127.9 billion (August 2020: R110.4 billion; February 2021: R118.5 billion). The group's clients earned R2.1 billion (August 2020: R2.3 billion; February 2021*: R2.0 billion) in interest on call, fixed deposit and credit card balances for the period.

Wholesale funding decreased to R1.3 billion (August 2020: R2.7 billion; February 2021: R2.4 billion) as funding matured. As a result, the interest expense on wholesale funding decreased to R0.2 billion (August 2020: R0.4 billion; February 2021*: R0.3 billion).

Net transaction income

Net transaction income for the group grew by 33% to R5.2 billion (August 2020: R3.9 billion; February 2021*: R4.8 billion). The Retail bank contributed R4.8 billion, an increase of 33% compared to the prior period of R3.6 billion (February 2021*: R4.5 billion).

Retail bank

The composition of transaction volumes was the main driver of net transaction income for the past 18 months. The changes in the proportions of branch, cash, digital and POS volumes are illustrated in the table below.

%	6 months ended August 2021	February 2021	August 2020
Transacting channel			
Digital	**41**	41	44
POS	**41**	39	36
Cash	**16**	18	18
Branch	**2**	2	2
	100	100	100

For the 6 months ended August 2020, net transaction income growth was minimal. Net transaction income was impacted by the assistance offered to clients in the form of reduced fees on certain transactions. The composition of transaction volumes changed as clients banked from home during the lockdown. The proportion of digital transactions grew while the proportion of POS volumes decreased.

During the 6 months ended February 2021, net transaction income grew by 25% compared to the 6 months ended August 2020. Total transaction volumes grew by 21% compared to the previous 6 months. Income grew by more than transaction volumes due to another shift in transacting behaviour. As lockdown restrictions eased, POS transaction volumes grew by 33% and digital transactions decreased by 4% compared to the 6 months ended August 2020.

Transaction fee price increases during March 2021 were not the main driver of net transaction fee income for the 6 months ended August 2021 since digital transaction fees, debit order fees and the monthly administration fee were not increased, and the cost of immediate payments was decreased. Total transaction volumes increased by 29% to 3.1 billion from 2.4 billion for the period ended August 2020 (February 2021*: 2.9 billion). The composition of transaction volumes shifted towards what will become the 'new normal'. The proportion of cash transactions was affected by the civil unrest that occurred during July 2021.

Clients are encouraged to perform transactions on the banking app or on other digital channels to enable consultants to spend time on transactions that require personal interaction.

Active digital users of the banking app, USSD channel, the internet or a combination of digital channels increased from 7.3 million at the end of August 2020 to 8.9 million at the end of August 2021, an increase of 22% (February 2021*: 8.6 million). As at the end of August 2021, there were 6.0 million active banking app users (August 2020: 4.1 million; February 2021: 5.3 million). Clients performed 623 million digital transactions for the period (August 2020: 516 million; February 2021*: 576 million).

As part of our Live Better programme, we partner with Dis-Chem, Educate24, GetSmarter, Hello Doctor, JOOX, Rentalcars.com, Shell and Travelstart. By simply activating their Live Better savings account, at no cost, and paying with a Capitec card, clients receive cash back or discounts. Within 3 months of the launch, 2.2 million clients had activated their Live Better savings account and cash backs amounting to R19.4 million were paid. Clients also benefitted from R2.2 million in discounts.

Live Better savings accounts encourage clients to use optional automatic savings tools, round-up and interest sweep, and benefit from a higher interest rate. With round-up, each purchase is rounded up to the nearest R2, R5 or R10 and the difference between the actual purchase and the round-up is transferred to the Live Better savings accounts. Interest earned on the client's main transactional savings account is transferred into their Live Better savings account by interest sweep, allowing the client to earn even higher interest. By the end of August 2021, our clients had saved R55.6 million using the automatic savings tool.

Insurance income

Net insurance income

Net insurance income from credit life policies increased by 15% to R571 million (August 2020: R498 million; February 2021*: R467 million) as a result of the increase in rates implemented during May 2020.

Currently, no reinsurance is held on the policies and Capitec is responsible for retrenchment, death and disability claims. Total claims paid for the 6 months amounted to R519 million (August 2020 (before reinsurance): R503 million; February 2021*: R940 million). Of the claims paid, R285 million related to retrenchment (August 2020: R381 million; February 2021*: R619 million). The remainder of the claims relate to death and disability.

Funeral plan income

The Capitec Funeral Plan income increased by 5% to R366 million (August 2020: R350 million; February 2021*: R300 million). Active policies increased to 1.5 million (August 2020: 979 000; February 2021: 1.2 million).

Persistency is calculated using the number of policies that remain active 3 months after commencement date. The calculation is based on all policies that were issued since inception. Persistency as at the end of August 2021 was 40% (August 2020: 42%; February 2021: 41%).

The average premium remained at a satisfactory level and collection rates were as expected. An increase in claims was experienced during the third wave of COVID-19. During the third wave, on average, 93% of the reinsurance premium was paid out in claims. Prior to the third wave, the 6-month rolling average was 77%.

Operating expenses

Operating expenses increased by 32% to R5.7 billion (August 2020: R4.3 billion; February 2021*: R5.2 billion).

The cost-to-income ratio was 45% (August 2020: 39%; February 2021*: 43%). During the past 18 months, the ratio was impacted significantly by the COVID-19 pandemic and the recent civil unrest.

Employee costs (including incentives) increased by R986 million compared to the period ended August 2020, and by R694 million compared to the 6 months ended February 2021. As at the end of August 2021, we had 14 789 employees (August 2020: 14 738; February 2021: 14 672).

Salary increases were granted during the current 6 months and the period ended August 2020. During the current period, provision was made for bonuses due to the recovery in headline earnings. Provisions were not made during the period ended August 2020. Our investment in building Business bank and the focus on innovation included the appointment of more senior employees. This contributed to the increase in salary costs. Share appreciation rights costs increased due to the recovery in the share price from R835.00 at the end of August 2020 to R1 897.70 at the end of August 2021 (February 2021: R1 338.75).

The recent civil unrest experienced in South Africa resulted in damage to 79 branches and 272 cash devices. Damage ranged from minor to significant damage requiring a complete rebuild of a branch. Cash losses amounted to R36 million. Damaged and stolen assets with a book value of R104 million were impaired.

An insurance assessor has been appointed and we have submitted our claims to the South African Special Risks Insurance Association (SASRIA). The recoverable amount was not included in the results for the period.

Credit ratings

On 21 May 2021, S&P Global 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. The 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 37.4% for the group compared to 30.4% at the end of August 2020 (February 2021: 36.7%).

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 908% and the NSFR is 241%. The regulatory required minimum NSFR is 100% and the LCR requirement which was temporarily relaxed by the Prudential Authority is 80%.

Prospects

The number of clients opting to transact using our Global One product offering continued to grow during the past 6 months and our digital channels were utilised by 1.6 million more clients. We plan to enhance client experience in all areas of our business.

Our innovation capability will be enhanced by the recruitment of approximately 300 employees in areas such as business science, artificial intelligence, data engineering and computer analysis during the next few months.

Digitalisation is a key strategic objective. Our aim is to become the number 1 digital bank for both Retail bank and Business bank clients. We have established a dedicated and focused team to provide a digital ecosystem of solutions that will enable efficient commerce between businesses and individuals. Growing our QR offering into the leading payment method is a focus area.

Purpose lending, which offers clients lower interest rates and performs better because it is linked to a purpose (home improvements, medical expenses, vehicle purchases and education), will be entrenched and more purpose lending partners will be added. We will monitor the socio-economic situation and amend credit granting criteria accordingly. Our focus remains on decreasing the cost of credit for our clients.

The Live Better benefit programme will be expanded. We will enter into partnerships with more businesses that share our client-centric vision and want to serve our 16.8 million clients. Our clients will have more opportunities to get even more cash back as well as immediate discounts.

Business bank generated an after-tax profit of R126 million for the 6 months ended August 2021. The rebranding of the Business bank offering planned for late next year will accelerate the growth in client numbers that has already begun. The integration of the Business bank into all areas of the organisation is at an advanced stage.

Organisational culture is of vital importance to our success. Despite the unusual circumstances during the past 18 months, our unique culture of innovation, agility and collaboration between all areas of the organisation remains strong. A return to office work is being carefully planned to promote team and organisational cohesion and we look forward to the remainder of the financial year together.

As an organisation, we will continue to focus on improving our clients' financial lives.

Changes in board composition

On 28 May 2021, Jock McKenzie retired from the board. We thank Jock for his contribution to the business and wish him well in his retirement.

Interim dividend

The directors declared a gross interim dividend of 1 200 cents per ordinary share for the 6 months ended 31 August 2021 (31 August 2020: nil) on 29 September 2021. The dividend will be paid on Monday, 25 October 2021. There are 115 626 991 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 960 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 19 October 2021
Trading ex-dividend commences	Wednesday, 20 October 2021
Record date	Friday, 22 October 2021
Payment date	Monday, 25 October 2021

Share certificates may not be dematerialised or rematerialised from Wednesday, 20 October 2021 to Friday, 22 October 2021, both days inclusive. In terms of the company's memorandum of incorporation, dividends will only be transferred electronically to the bank accounts of certificated shareholders, as dividend cheques are no longer issued.

In instances where certificated shareholders do not provide the transfer 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.

It is the directors' intention to declare 50% of headline earnings for the 2022 financial year as dividends for the year.

On behalf of the board

Santie Botha

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
30 September 2021

* *February 2021 refers to the 6 months ended February 2021.*

Capitec Bank Holdings Limited Registration number: 1999/025903/06 Registered bank controlling company Incorporated in the Republic of South Africa **JSE ordinary share code**: CPI **ISIN code:** ZAE000035861 **JSE preference share code**: CPIP **ISIN code:** ZAE000083838 ('Capitec' or 'the group' or 'the company') **Company secretary and registered office**: YM Mouton 5 Neutron Road, Techno Park, Stellenbosch 7600; 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) **Directors** SL Botha (Chairman), GM Fourie* (CEO), AP du Plessis* (CFO), SA du Plessis, CH Fernandez, MS du Pré le Roux, V Mahlangu, TE Mashilwane, NS Mashiya* (CRO), DP Meintjes, PJ Mouton, CA Otto, JP Verster *Executive director.

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