Integrated Annual Report **2022**

CAPITEC BANK HOLDINGS LIMITED

Contents

The bank for everyone

Our purpose is to make banking simple and transparent so that everyone can live better. We achieve this by challenging the *status quo* and designing innovative banking solutions that are true to our fundamentals of simplicity, affordability, accessibility and personalised experience. Our culture prompts us to improve the lives of our clients and our people, and our agility allows us to deliver value to our stakeholders despite difficult social and economic conditions.

About this report

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

What we cover

This report provides information about Capitec's operational and financial performance for the financial year 1 March 2021 to 28 February 2022.

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

Materiality

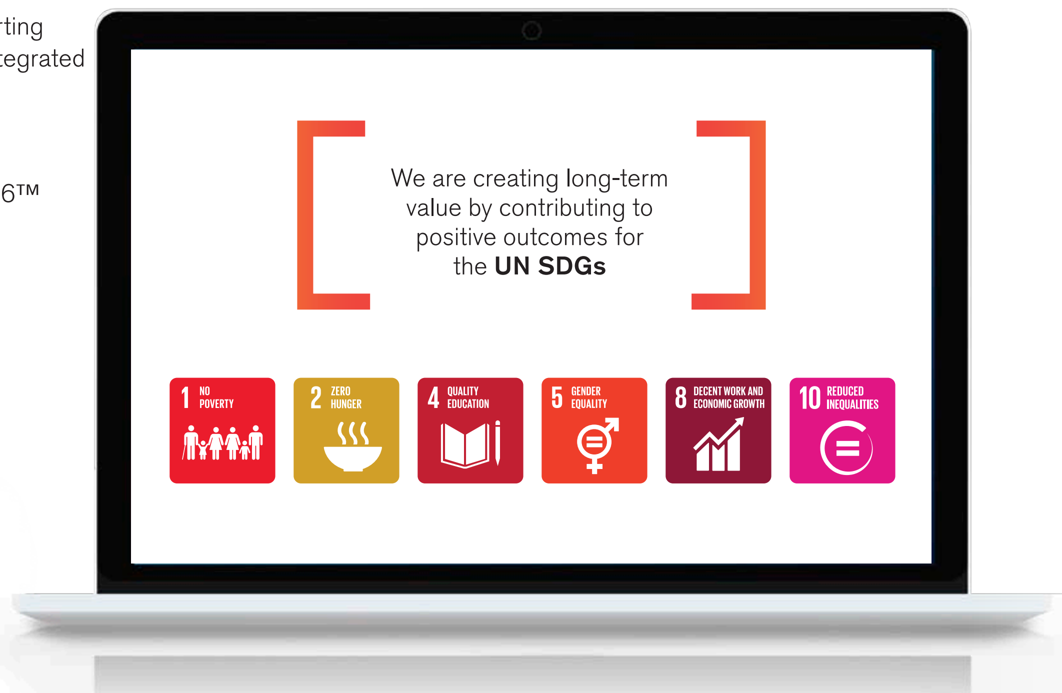
We focus on matters that have the potential to materially impact our ability to create and sustain value over the short, medium and long term.

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

What guided us

This report was compiled in accordance with:

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



Forward-looking statements

Certain statements in this report may be regarded as forward-looking statements or forecasts but do not represent an earnings forecast or guarantee. Actual results and outcomes may differ materially from those expressed in or implied by these statements. All forward-looking statements are based solely on the views and considerations of the directors. These forward-looking statements have not been reviewed and reported on by the external auditors.

Assurance

Our joint external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche (Deloitte), independently provided assurance on the fair presentation of the financial statements for the year ended 28 February 2022. The external auditors also read the integrated annual report and considered whether any information provided is materially inconsistent with the financial statements or their knowledge obtained during the course of their audit or otherwise appears to be materially misstated. No such misstatement was reported.

We appreciate your feedback

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

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

Board approval

The Capitec board is responsible for overseeing the integrity and completeness of this report. The board, the audit committee, the human resources and remuneration committee (REMCO) and the social, ethics and sustainability committee (SESCO) considered the accuracy and completeness of the report and are satisfied with the integrity of all data and information. The board members collectively applied their minds to the preparation and presentation of the information contained in this report and approved the report. It was signed on behalf of the board on 12 April 2022 by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Navigation tools

Capitals

Financial
Manufactured
Human
Intellectual
Social and relationship
Natural

Strategic objectives

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

Our fundamentals

Simplicity
Affordability
Accessibility
Personal experience

Our products

Transact
Save
Insure
Credit

performance and outlook

Headline earnings per share
+84% to
7 300 cents

Final dividend per ordinary share
2 440 cents

Return on equity
26%

Retail clients using digital channels
+17% to
10.1 million

Headline earnings
+84% to
R8.4 billion

Special dividend per ordinary share
1 500 cents

Capital adequacy ratio
36%

Active clients
+14% to
18.1 million

We are the bank for everyone. For more than 20 years we have improved people's financial lives and helped them to live better.

We are guided by:

Simplicity | Affordability | Accessibility | Personalised experience

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5 years at a glance

		2022	2021	% change* 2022/2021	2020**	2019	2018
Profitability							
Interest income on loans	R'm	13 247	13 401	(1)	13 552	12 723	13 216
Interest income on investments	R'm	4 207	3 143	34	3 489	2 778	2 258
Total interest income	R'm	17 454	16 544	6	17 041	15 501	15 474
Net loan fee income	R'm	951	898	6	890	712	506
Net insurance income	R'm	1 540	965	60	981	795	874
Total lending, investment and insurance income less loan fee expense	R'm	19 945	18 407	8	18 912	17 008	16 854
Interest expense	R'm	(4 838)	(4 985)	(3)	(5 680)	(4 510)	(4 184)
Net lending, investment and insurance income	R'm	15 107	13 422	13	13 232	12 498	12 670
Net transaction income	R'm	10 515	8 708	21	7 416	6 464	5 127
Net foreign currency income	R'm	144	111	30	38	—	—
Other income	R'm	290	114	>100	32	3	(1)
Funeral plan income	R'm	906	650	39	413	54	—
Income from operations	R'm	26 962	23 005	17	21 131	19 019	17 796
Credit impairments	R'm	(3 508)	(7 825)	(55)	(4 474)	(4 450)	(5 280)
Net income	R'm	23 454	15 180	55	16 657	14 569	12 516
Operating expenses	R'm	(12 555)	(9 463)	33	(8 612)	(7 494)	(6 364)
Share of net profit/(loss) of associates and joint ventures	R'm	36	(7)	>100	11	2	3
Impairment of investments	R'm	—	(122)		—	—	—
Operating profit before tax	R'm	10 935	5 588	96	8 056	7 077	6 155
Income tax expense	R'm	(2 408)	(1 130)	>100	(1 805)	(1 781)	(1 685)
Profit after tax	R'm	8 527	4 458	91	6 251	5 296	4 470
Preference dividend	R'm	(3)	(4)	(25)	(7)	(9)	(12)
Discount on repurchase of preference shares	R'm	(1)	(2)	(50)	(1)	(2)	—
Earnings attributable to ordinary shareholders							
Basic	R'm	8 523	4 452	91	6 243	5 285	4 458
Headline	R'm	8 440	4 586	84	6 277	5 292	4 461
Net transaction, net foreign currency and funeral plan income to net income	%	49	62		47	45	41
Net transaction, net foreign currency and funeral plan income to operating expenses	%	92	100		91	87	81
Cost-to-income ratio	%	47	41		41	39	36
Return on ordinary shareholders' equity	%	26	17		28	28	27
Earnings per share							
Attributable	cents	7 371	3 850	91	5 400	4 571	3 855
Headline	cents	7 300	3 966	84	5 428	4 577	3 858
Number of shares for calculation	'000	115 627	115 627		115 627	115 627	115 627
Diluted attributable	cents	7 360	3 848	91	5 391	4 562	3 843
Diluted headline	cents	7 289	3 963	84	5 420	4 568	3 846
Number of shares for calculation	'000	115 800	115 698		115 800	115 853	115 998
Dividends per ordinary share							
Interim	cents	1 200	—		755	630	525
Final	cents	2 440	1 600	53	—	1 120	945
Total	cents	3 640	1 600	>100	755	1 750	1 470
Number of shares for calculation	'000	116 100	115 627		115 627	115 627	115 627
Dividend cover	times	2.0	2.5		7.2	2.6	2.6
Special dividend	cents	1 500	—		—	—	—
Assets							
Net loans and advances	R'm	66 549	57 189	16	62 043	44 515	40 927
Cash and financial investments[1]	R'm	97 901	84 625	16	59 439	49 208	39 387
Other	R'm	13 493	14 693	(8)	13 086	6 705	4 407
Total assets	R'm	177 943	156 507	14	134 568	100 428	84 721
Liabilities							
Deposits and wholesale funding	R'm	134 458	120 908	11	103 343	76 443	64 030
Other	R'm	7 720	5 684	36	5 644	2 309	2 447
Total liabilities	R'm	142 178	126 592	12	108 987	78 752	66 477
Equity							
Shareholders' funds (total equity)	R'm	35 765	29 915	20	25 581	21 676	18 244
Capital adequacy ratio (CAR)	%	36	37		31	34	35
Net asset value per ordinary share	cents	30 888	25 824	20	22 061	18 676	15 681
Number of shares for calculation	'000	115 627	115 627		115 627	115 627	115 627
Share price	cents	207 435	133 875	55	129 999	130 621	83 246
Market capitalisation	R'm	240 832	154 796	56	150 314	151 033	96 255
Number of shares in issue per the shareholders' register	'000	116 100	115 627		115 627	115 627	115 627
Share options							
Number outstanding	'000	557	552	1	491	640	777
Number outstanding to shares in issue	%	0.5	0.5		0.4	0.6	0.7
Average strike price	cents	100 737	91 395	10	70 889	50 644	38 561
Average time to maturity	months	27	30	(10)	21	18	19

			2022	2021	% change* 2022/2021	2020**	2019	2018
Operations								
Branches			853	857		864	840	826
Employees			14 758	14 672	1	14 590	13 774	13 333
Active clients		'000	18 083	15 829	14	13 887	11 386	9 868
ATMs (automated teller machines), DNRs (dual note recyclers) and CNRs (coin and note recyclers)								
Own			2 863	2 660	8	2 388	2 090	1 895
Partnership			4 315	4 065	6	3 264	2 921	2 750
Total			7 178	6 725	7	5 652	5 011	4 645
Capital expenditure		R'm	863	837	3	1 403	1 141	829
Credit sales								
Retail bank – value of total loans advanced		R'm	43 932	29 334	50	39 116	30 968	30 125
Value of credit card disbursements/drawdowns		R'm	11 011	9 659	14	9 799	6 193	3 949
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	28 666	23 475	24 343
Value of credit facility disbursements/drawdowns		R'm	—	206		651	1 300	1 833
Business bank – value of total loans advanced		R'm	53 903	48 918	10	15 642	—	—
Value of mortgage loans advanced		R'm	2 268	1 553	46	509	—	—
Value of business loans advanced		R'm	2 443	2 245	9	809	—	—
Value of overdraft disbursements/drawdowns		R'm	49 192	45 120	9	14 324	—	—
Value of total loans advanced		R'm	97 835	78 252	25	54 758	30 968	30 125
Credit book								
Gross loans and advances		R'm	84 108	75 026	12	75 783	55 895	47 642
Up-to-date	Stage 1	R'm	55 297	47 696	16	57 626	41 587	37 165
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	8 641	4 349	99	3 616	3 765	4 401
Forward-looking SICR	Stage 2	R'm	3 059	4 564	(33)	954	—	—
Total up-to-date		R'm	66 997	56 609	18	62 196	45 352	41 566
Arrears	Stage 2	R'm	1 409	1 034	36	1 200	1 087	1 003
Arrears	Stage 3	R'm	1 744	1 904	(8)	1 550	1 483	1 697
Total arrears		R'm	3 153	2 938	7	2 750	2 570	2 700
Application for debt review within 6 months	Stage 3	R'm	141	137	3	83	70	108
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)	226	—	—
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)[2]	Stage 3	R'm	1 175	2 105	(44)	1 130	900	1 085
Up-to-date that rescheduled from arrears (not yet rehabilitated)[2]	Stage 2	R'm	126	92	37	71	—	—
Up-to-date that rescheduled from arrears (not yet rehabilitated)[2]	Stage 3	R'm	1 634	2 403	(32)	1 471	1 354	1 277
Total up-to-date that rescheduled (not yet rehabilitated)[2]		R'm	3 745	6 100	(39)	2 898	2 254	2 362
More than 3 months in arrears and legal status	Stage 3	R'm	10 072	9 242	9	7 856	5 649	—
Expected recoveries receivable	Stage 3	R'm	—	—		—	—	906
Total provision for credit impairment		R'm	(17 559)	(17 837)	(2)	(13 740)	(11 380)	(6 715)
Net loans and advances		R'm	66 549	57 189	16	62 043	44 515	40 927
Total provision for credit impairment to stage 3 and stage 2 (excluding SICR) coverage		%	103	97		101	108	130
Gross credit impairment charge on loans and advances		R'm	4 286	8 697	(51)	5 737	4 917	6 560
Bad debts recovered		R'm	818	932	(12)	1 263	467	1 280
Net credit impairment charge on loans and advances[3]		R'm	3 468	7 765	(55)	4 474	4 450	5 280
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)		%	4.4	10.3		6.3	8.6	11.4
Total lending and insurance income (excluding investment income)[4]		R'm	15 756	15 335	3	15 517	14 448	15 008
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)[4]		%	22.0	50.6		28.8	30.8	35.2
Deposits and wholesale funding								
Wholesale funding		R'm	2 060	2 376	(13)	3 694	5 078	6 206
Call savings		R'm	89 167	78 113	14	62 582	45 141	34 909
Fixed savings		R'm	41 928	39 176	7	36 183	26 224	22 915
Foreign currency deposits		R'm	1 303	1 243	5	884	—	—

* *The percentage changes quoted in the Review by the Chairman and Chief Executive Officer and the Report from the Chief Financial Officer are based on figures denominated in R'million.*

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

[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.*

Review by the Chairman and Chief Executive Officer

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 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.

Review by the Chairman and Chief Executive Officer continued

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 resche-dules[2]	COVID-19 resche-dules[2]	2 and 3 months in arrears	Resche-duled from up-to-date (not yet rehabi-litated)	Resche-duled from arrears (not yet rehabi-litated)	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 on 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.

Indicates information that was audited.

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).

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 (NCA). 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 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.

Review by the Chairman and Chief Executive Officer continued

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 (CLI) 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 (SARs) 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 SARs 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 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

Report from the Chief Financial Officer

We generated compound annual growth of 23% in headline earnings over the past 10 years.

The group met the socio-economic challenges of the past 2 years by focusing on our strategic objectives to generate sustainable growth for our stakeholders. Our focused approach delivered compound annual growth of 23% in headline earnings over the past 10 years.

Headline earnings per share grew by 84% to 7 300 cents (2021: 3 966 cents) and diluted headline earnings per share was 7 289 cents (2021: 3 963 cents).

There were, however, events during the year that adversely affected the South African economy, our operations and our clients.

It is estimated that the civil unrest in Gauteng and KwaZulu-Natal during July 2021 impacted the national gross domestic product (GDP) by R50 billion and economic recovery halted after 4 consecutive quarters of growth. Capitec's operations in the affected areas were disrupted temporarily; it was necessary to write off property and equipment in damaged branches and cash losses were suffered. These losses were, however, recovered through insurance claims before year-end.

The Delta and Omicron variants of COVID-19 resulted in renewed restrictions between June 2021 and January 2022 as the number of infections increased substantially. The invasion of Ukraine in February 2022 led to record highs in commodity prices, especially Brent Crude oil.

The continued impact of COVID-19 and the global geopolitical situation were incorporated in the calculation of our forward-looking macroeconomic provision for ECLs.

In the face of these challenges, we increased return on equity (ROE) from 17% in 2021 to 26%. Gross loans and advances grew by 12% to R84.1 billion (2021: R75.0 billion), while deposits and wholesale funding increased from R120.9 billion to R134.5 billion. We are well capitalised and exceed the liquidity requirements as determined by the PA.

Based on performance and after due consideration of Guidance Note 2 of 2022 issued by the PA on 9 March 2022[1], the board declared a final ordinary dividend of 2 440 cents per share, resulting in a full year dividend of 3 640 cents per share. This is in line with the group's 2.0 times dividend cover based on headline earnings per share. The board also declared a special ordinary dividend of 1 500 cents per share.

Loans and advances

Increase in gross loans and advances

The growth in gross loans and advances was primarily driven by the increase in demand for credit which, in turn, led to responsible easing of our strict credit granting criteria.

The table below analyses the movement in the gross loans and advances for the year.

	Gross loans and advances			
R'm	**Retail loans**	**Mortgage loans**	**Business loans**	**Total**
Balance as at 1 March 2021	63 985	5 602	5 439	75 026
New loan sales[2]	43 932	2 268	51 635	97 835
Income accrued for the year[3]	18 206	437	490	19 133
Repayments[2]	(48 799)	(1 566)	(51 336)	(101 701)
Write-offs	(6 110)	(22)	(53)	(6 185)
Balance as at 28 February 2022	71 214	6 719	6 175	84 108

[1] Guidance Note 2 of 2022 issued by the PA advised banks to be prudent and consider the adequacy of their current and forecast capital and profitability levels, internal capital targets and risk appetite as well as current and potential future risks posed by the ongoing pandemic when making distributions of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk-takers for the duration of the COVID-19-related uncertainty.

[2] Disbursements of overdraft facilities are included in new loan sales and any cash inflows are reflected as repayments.

[3] The income accrued for the year comprises interest received on loans, initiation fees, monthly service fees and gross insurance income.

	Gross loans and advances			
R'm	**Retail loans**	**Mortgage loans**	**Business loans**	**Total**
Balance as at 1 March 2020	65 438	5 407	4 939	75 784
New loan sales[1]	29 334	1 553	47 365	78 252
Income accrued for the year[2]	18 477	394	476	19 347
Repayments[1]	(42 953)	(1 733)	(47 292)	(91 978)
Write-offs	(6 311)	(19)	(49)	(6 379)
Balance as at 28 February 2021	63 985	5 602	5 439	75 026

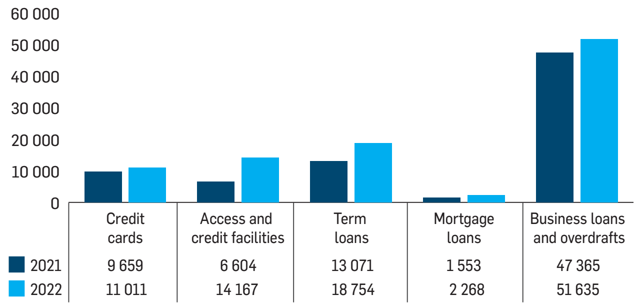
[1] Disbursements of overdraft facilities are included in new loan sales and any cash inflows are reflected as repayments.

[2] The income accrued for the year comprises interest received on loans, initiation fees, monthly service fees and gross insurance income.

New loan sales

Total loan sales and disbursements for the year increased by 25% from R78.3 billion to R97.8 billion.

GROUP LOANS DISBURSED BY PRODUCT (R'm)



According to the National Credit Regulator's (NCR) Consumer Credit Market Report, the total number of all types of credit applications during the 12 months ended September 2021 increased by 18% to 43.9 million (September 2020: 37.2 million).

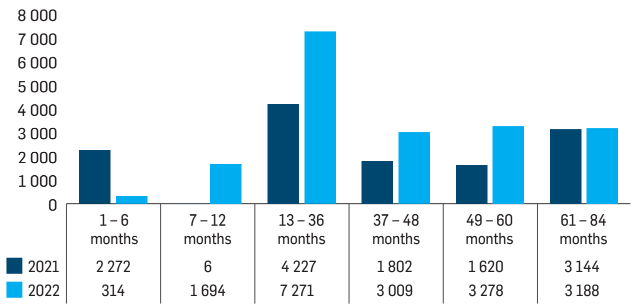
The total unsecured and short-term credit granted during this period increased by 3% to R96.4 billion (September 2020: R93.3 billion). This comprises 21% (September 2020: 20%) of total credit granted.

The group's total unsecured credit granted increased from 29.3 billion to R43.9 billion. The access facility, which attracts a lower interest rate than term loans and delivers better repayment behaviour, increased by 121% from R6.4 billion to R14.2 billion.

The access facility product gives clients direct access to revolving credit whenever they require it and the benefit to the client is that no initiation fee, interest or monthly fee is charged when the client does not use the facility. The average utilisation during the current financial year was 59% (2021: 58%).

Our term loan sales increased by 43% to R18.8 billion. Of the R5.7 billion increase in term loan sales, 51% of the loans had a term of 36 months of more.

TERM LOANS DISBURSED BY TERM (R'm)



Business bank loan sales and disbursements increased by 10% to R53.9 billion (2021: R48.9 billion). Overdrafts comprise 91% (2021: 92%) of the total loans disbursed but a large portion of the amounts disbursed were repaid in the same financial year. Business and mortgage loans increased by 9% and 46%, respectively.

Report from the Chief Financial Officer continued

Income accrued for the year

Net lending income

R'm	2022	2021
Interest income on loans and advances to clients	**12 800**	12 902
Loan origination fees	**447**	499
Monthly service fees	**969**	969
Total lending income	**14 216**	14 370
Loan fee expense[1]	**(18)**	(71)
Total net lending income	**14 198**	14 299

(1) *First-party cell captive insurance expense on loans granted before 6 May 2016 that are still on the credit book.*

Interest income on loans and advances decreased from R12.9 billion to R12.8 billion for the year. The composition of the loan book and the low repo rate were the main drivers of the decrease.

The repo rate remained at 3.5% from July 2020 until November 2021 when it increased by 25 basis points. A further increase of 25 basis points was announced on 27 January 2022. The rate impacted interest earned on loans granted in terms of the NCA during the 2021 and 2022 financial years.

Credit impairments and ECL provisions

The total net credit impairment charge for the year was R3.5 billion (2021: R7.8 billion). The prior year charge was significantly higher due to the upfront recognition of the full impact of the COVID-19 pandemic. The net credit impairment charge on loans and advances to average gross loans and advances decreased from 10.3% to 4.4%.

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

R'm	2022	2021
Bad debts written off	**6 185**	6 379
Movement in provision for credit impairments	**(1 899)**	2 318
Gross credit impairment charge	**4 286**	8 697
Bad debts recovered	**(818)**	(932)
Net credit impairment charge	**3 468**	7 765

Bad debts written off

Bad debts written off amounted to R6.2 billion (2021: R6.4 billion) which was 3% lower than the prior year.

The quality of the loan book improved and therefore write-offs were expected to remain stable due to the application of the IFRS 9 write-off policy, which has been in place since 1 March 2018.

In terms of the IFRS 9 write-off policy, loans are only written off once it has been determined that there is no reasonable expectation of further recoveries. We consider this point to have been reached when the loan has a present value of expected future recoveries less than 5% of the gross balance.

The impact of the policy can also be seen in the R0.8 billion increase in the more than 3 months in arrears, legal status and applied for review <6 months book.

Movement in provisions for credit impairments

The total provision for credit impairments decreased by 2% to R17.6 billion (2021: R17.8 billion; 2020: R13.7 billion).

This was attributable to the improvement in the quality of the gross loans and advances. Refer to the detail in the Review by the Chairman and Chief Executive Officer regarding the composition of the loan book.

Forward-looking economic overlay

In line with fundamental principles of IFRS 9 *Financial Instruments*, the group holds a provision against potential future losses resulting from changes in the macroeconomic environment.

The group utilised the latest Bureau of Economic Research macroeconomic outlook for South Africa over a planning horizon of 5 years and estimate the effects of changes to the economic environment. Historical default information was adjusted based on the macroeconomic outlook at year-end, and the macroeconomic factors that have the most significant impact on the loan book were stressed.

We considered 3 economic scenarios (negative, baseline and positive) when calculating the impact of the macroeconomic factors on the ECLs. The probability of each scenario was estimated by management. Management assigned a probability of 29% to the negative scenario, 50% to the baseline scenario and 21% to the positive scenario.

The required forward-looking provision for ECLs as at 28 February 2022 was determined as R3.0 billion (2021: R3.2 billion; 2020: R0.6 billion).

Refer to note 3.2.1 to the financial statements for more detail on our critical estimates and judgements.

Bad debts recovered

Total bad debts recovered decreased by 11% to R0.8 billion (2021: R0.9 billion). This includes R0.4 billion (2021: R0.2 billion) in recoveries on loans written off since 1 March 2018 when the IFRS 9 write-off policy was adopted. The year-on-year decrease is in line with our expectation because the quality of the book improved.

Monitoring the quality of the loan book

We use risk-based pricing with ROE targets to determine the product term and interest rates that are offered to clients. While all the expected costs and income are modelled across the lifetime of the product, a key driver of the expected ROE is the estimated bad debt cost.

The key drivers of the bad debt cost are the probability of default, the exposure at default and loss given default. Default is defined as the client being 3 or more payments in arrears, handed over to external debt collectors (EDCs), placed under debt review or with a legal status.

We monitor the lifetime bad debt components continuously and adapt when required, to ensure the product terms and interest rates offered to clients are aligned to the bank's risk appetite as measured by the prerequisite ROE.

Our agile risk management is consistently applied across all areas of the credit life cycle (granting, collections, provisioning and recoveries). Our focus for the current year was to identify industries and employers who returned to a stable operating environment, reflected a normal salary pattern and sustained recovery from the COVID-19 pandemic.

We pride ourselves on being a responsible lender and therefore focus on ensuring that clients take up credit for the correct reasons and that the term selected matches the purpose for which it is needed.

Through risk management, inherent conservatism towards granting credit and the ability to adjust our risk-based pricing accordingly, we were able to respond responsibly to the increased demand for credit in the market as reported by the NCR.

Funding and investments

Call and fixed deposits increased by 14% and 7%, respectively. In line with the prior year, retail deposits constituted nearly all of the total funding.

The growth in our deposit book was driven by another year of strong client acquisition. Our active client base increased by 14% to 18.1 million (2021: 15.8 million). This equates to an increase of nearly 190 000 clients per month over the past 12 months.

The average maturity of retail fixed funding was in line with the prior year at 17.3 months (2021: 15.4 months). The debt-to-equity ratio remained stable at 3.9:1 (2021: 4.3:1).

Wholesale funding for the group declined by 13% to R2.1 billion (2021: R2.4 billion), comprising mainly of R1.3 billion in domestic medium-term notes (senior debt). The remainder of the balance is made up of negotiable certificates of deposit, a domestic bilateral loan and short-term corporate paper.

The weighted average maturity was 27.2 months (2021: 15.1 months). None of the senior bonds will mature in the next financial year.

Our conservative and agile approach towards risk management enables the mitigation of specific risk events. Our consistent approach inherently ensures our compliance with the Basel 3 LCR and NSFR requirements. As at 28 February 2022, our LCR was 2 881% (2021: 2 459%) and our NSFR was 225% (2021: 221%).

To reduce liquidity risk, we only use call deposits to fund cash flows shorter than 6 months. The funds surplus to operational requirements amounted to R90.1 billion on 28 February 2022 (2021: R75.8 billion). These funds are invested in low-risk, liquid, interest-bearing instruments.

The weighted average remaining maturity of the investment portfolio as at 28 February 2022 was 531 days (2021: 256 days). Treasury bills and government bonds comprise 70% (2021: 43%) of the investment portfolio.

Interest income on investments

Interest income on investments increased by 34% from R3.1 billion to R4.2 billion. Our average investment portfolio increased by 28% to R79.5 billion (2021: R62.2 billion). The higher portfolio resulted in increased investment in interest-bearing instruments such as South African National Treasury bills and longer-dated government bonds. Consequently, interest-bearing instruments increased from R35.0 billion to R62.9 billion.

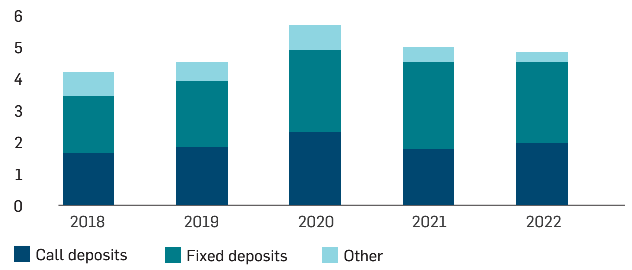
Report from the Chief Financial Officer continued

Interest expense

Interest expense decreased from R5.0 billion to R4.8 billion despite a substantial increase in total deposits. Total deposits amounted to R134.5 billion (2021: R120.9 billion), which represents a 11% increase when compared to the prior year.

The primary driver of the decrease in the interest expense was the interest paid on fixed deposits. Existing fixed deposits which attracted higher interest rates that matured during the year were replaced by new deposits at lower interest rates. This resulted in the average interest rate paid on the fixed deposit book being significantly lower than in the prior year.

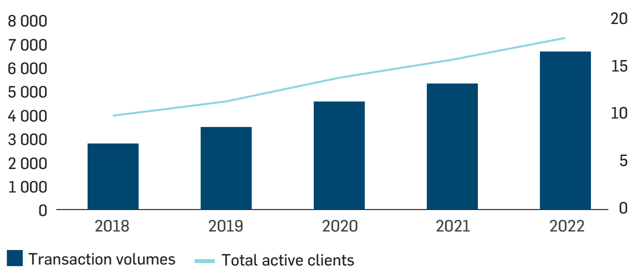
INTEREST EXPENSE BY NATURE



Net transaction income

Net transaction income increased by R1.8 billion to R10.5 billion (2021: R8.7 billion). Total transaction volumes amounted to 6.7 billion (2021: 5.3 billion), an increase of 26% over the prior year. The continued growth in our active client base and the optimisation of existing clients were the primary drivers behind the increase.

CLIENT AND TRANSACTION VOLUME GROWTH



As part of our digitalisation journey and our fundamentals to make banking accessible and more affordable, we kept most of our digital fees unchanged for the 4th consecutive year in March 2022. We continue to expand our digital offering and, over the past year, we have delivered features such as Scan to pay and Pay me.

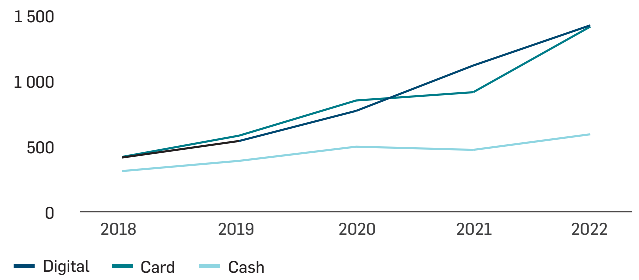
The impact of the strict lockdown regulations was temporary and limited to our branch-related and card transactions. Inversely, it had a positive impact on the group as it accelerated the adoption of digital channels.

The strong digital adoption experienced during the prior year continued into the current year and resulted in digital transactions increasing by 27% from 1.1 billion to 1.4 billion.

Card transactions, which were temporarily affected by the lockdown regulations during the prior year, increased by 40% to 1.4 billion (2021: 1.0 billion).

Digital and card transactions, which are more affordable compared to other transaction types, now comprise 41% (2021: 39%) of total transactions.

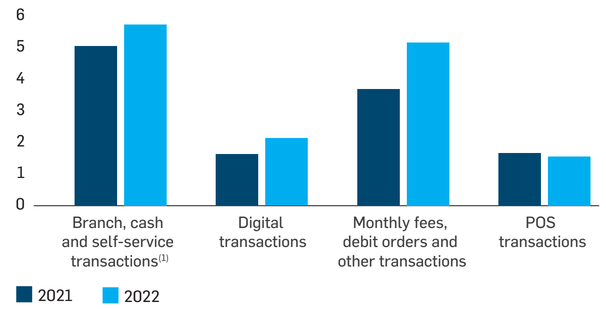
DIGITAL AND CARD TRANSACTIONS



The strong digital adoption and card usage from our clients decreased our net transaction income as the fees are significantly lower compared to our branch-related and cash transactions. Consequently, digital and card transactions only comprise 25% (2021: 27%) of the total transaction income.

Branch, cash and self-service transactions, which attract a higher fee from our clients, comprise 39% (2021: 42%) of the total transaction income.

TRANSACTION INCOME PER CATEGORY



(1) 7% of the income is generated by self-service terminal transactions.

Our branch network remains a fundamental part of our business as it enables us to provide a client-facing personalised service. As digitalisation increases, branches become more focused on sales and financial education.

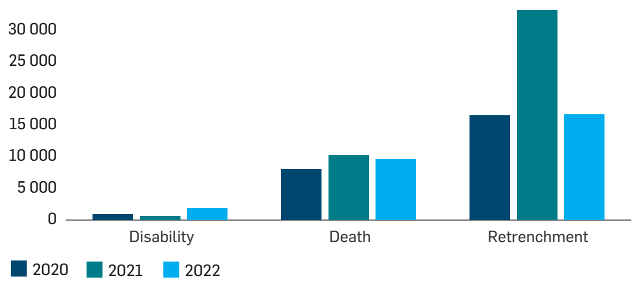
Net transaction, net foreign currency and funeral plan income to net income was 49% (2021: 62%) which was significantly lower than the prior year. In the prior year, net income was impacted by the significant credit impairment charge which was raised in reaction to the pandemic, resulting in the higher comparative ratio. Compared to 2020, the current year ratio was 2% higher.

The net transaction, net foreign currency and funeral plan income to operating expenses decreased from 100% to 92% in 2022. The prior year operating expenses were lower due to active savings and management of costs during the COVID-19 pandemic.

Credit life insurance

Net insurance income of R1.5 billion (2021: R1.0 billion) was 60% higher than the comparative year. The decrease in the number of retrenchment claims, the growth in the insured book and the implementation of self-insurance all contributed to the robust growth.

NUMBER OF CLAIMS SETTLED BY RISK



The number of claims decreased by 36% from 44 119 to 28 297 for the year. Retrenchment claims decreased by 50%, primarily driven by the gradual easing of the strict lockdown restrictions as well as the return to a more stable environment for most industries in South Africa. The average insured book for the 2022 financial year was R61.9 billion (2021: R59.8 billion).

Funeral plan income

Funeral plan income increased by 39% to R906 million (2021: R650 million) primarily due to the continued success of the funeral product which increased the number of active policies.

As at 28 February 2022, the active book was 1.7 million policies (2021: 1.2 million policies). The average active funeral book for the current year was approximately 500 000 policies more than the prior year.

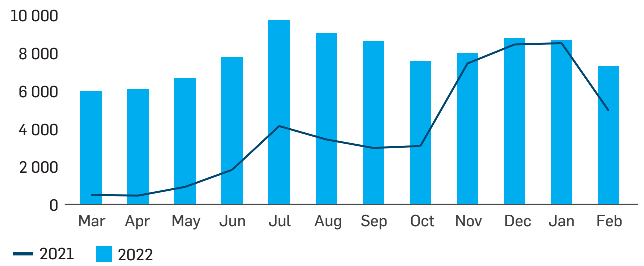
The substantial growth in the average active book was attributable to the fact that we issued an average of approximately 97 000 policies (2021: 85 000 policies) per month during the current year, and our persistency ratio improved from 49% to 58%.

Due to the volume growth premium income generated by the active book increased by 54% from R2.8 billion to R4.3 billion. In line with expectations, the risk premium paid to our reinsurers increased in line with the premium income.

Average collection rates improved to 87% (2021: 85%) which contributed to a lower provision for unpaid premiums for the year.

A total of 93 878 claims (2021: 55 287) amounting to R2.0 billion (2021: R1.2 billion) were settled during the current financial year.

NUMBER OF FUNERAL CLAIMS SETTLED



Other income

Other income increased by R176 million to R290 million (2021: R114 million). The main driver was R250 million which we received at replacement cost from Sasria SOC Limited for losses incurred during the civil unrest.

Report from the Chief Financial Officer continued

The civil unrest experienced in July 2021 resulted in damage to 79 branches and 272 cash devices. The damage ranged from minor to significant damage requiring the complete rebuild of branches. Total losses amounted to R107 million and were recognised in operating expenditure.

Refer to note 43 to the financial statements for more detail on the financial impact of the civil unrest.

Insurance recoveries and losses relating to the derecognition of property, plant and equipment were adjusted in the calculation of headline earnings in line with the South African Institute of Chartered Accountants' Circular 1/2021 on headline earnings. Refer to note 30 to the financial statement for adjustments to headline earnings.

Operating expenditure

Operating expenditure of R12.6 billion (2021: R9.5 billion) increased by 33% compared to the prior year. The cost-to-income ratio was 47% (2021: 41%).

Higher operating expenditure was primarily driven by employee costs (including incentives) and information technology (IT) expenses, which increased by 58% and 46%, respectively.

Total employee costs (including incentives) amounted to R7.4 billion (2021: R4.7 billion). The higher employee costs were attributable to the growth in the following components: normal salaries and bonus costs, SARs and the Izindaba Ezinhle Employee Share Scheme transaction.

Normal salaries and bonus costs increased by 44% from R4.4 billion to R6.4 billion. This was due to annual salary increases, a higher headcount and higher bonuses due to the significant growth in headline earnings.

Digitalisation and product innovation are the cornerstone of our strategic objectives. As South Africa's leading digital bank, the group continued its strong hiring drive for specialists with the necessary data skills to align to our ambition of further accelerating our digital adoption. A total of 335 specialists were appointed during the year.

The SARs cost increased by more than 100% to R0.2 billion. Our share price increased from R1 338.75 on 28 February 2021 to R2 074.35 at the end of the current financial year.

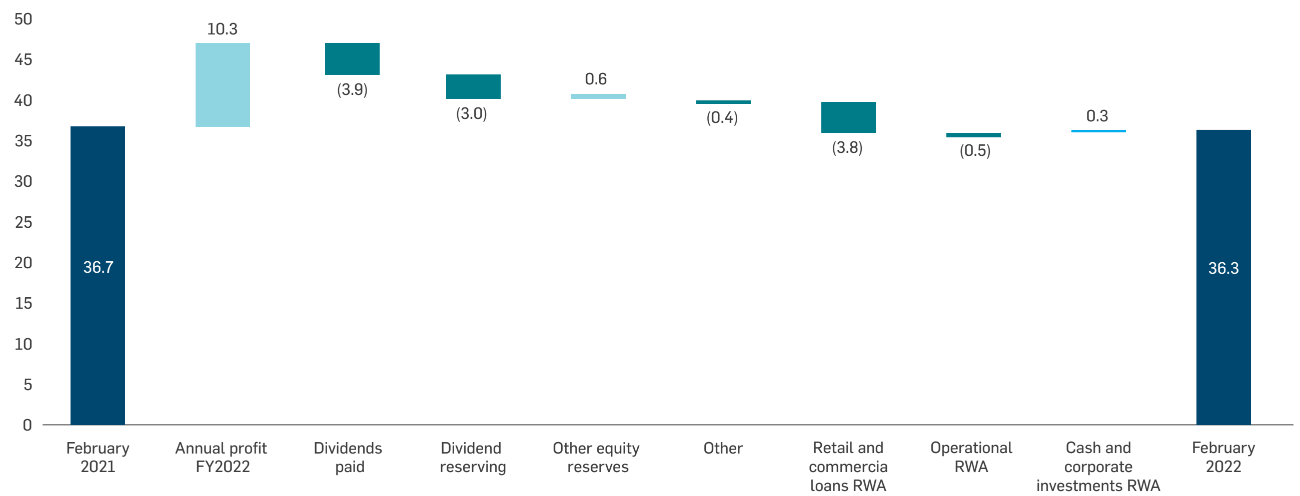
The Izindaba Ezinhle Employee Share Scheme, which was approved at the special annual general meeting (AGM) on 22 February 2022, resulted in a charge of R0.7 billion which is included in operating expenditure.

IT expenses increased from R0.7 billion to R1.0 billion which was attributable to increased investment in our digitalisation journey. Other costs such as maintenance, network support and information security increased as a result of the civil unrest which resulted in the temporary closure of 272 branches.

Tax

The group's tax expense grew by 113% to R2.4 billion from R1.1 billion. Tax attributable to the profits on the cell captive investments is deducted from the net insurance income and funeral plan income and therefore excluded from the tax expense line. As a result the reported effective tax rate is 22% (2021: 20%). Together with tax paid in the cell captives, the effective tax rate for the group is 29% (2021: 27%), which exceeds the corporate income tax rate. The higher effective tax rate is due to the announcement of the reduction in tax rate to 27%, which affected the future value of our deferred tax asset.

YEAR TO DATE CHANGE IN CAR (%)



Capital

Group risk-weighted assets (RWAs) increased 13.2% to R88.1 billion, largely due to 15.1% higher credit risk RWAs, a 13.2% increase in operational risk RWAs and 22% increase in other RWAs. The Group remains well capitalised with a CAR ratio of 36.3% (2021: 36.7%) and a common equity tier 1 (CET) of 35.4% (2021: 35.9%). Capitec Bank Limited, the statutory legal entity, has a CAR ratio of 33.9% (2021: 36.1%) and a CET1 of 33.0% (2021: 35.2%).

Accounting matters

Impairments

Goodwill arising from the acquisition of Mercantile

Management reviewed the assumptions and estimates used in the impairment assessment calculation and determined that the recoverable amount exceeded the carrying amount. The calculation used cash flow projections based on our financial budget, which was approved by management and the board of directors, and which includes management assessments.

The risk associated with the prolonged impact of COVID-19 and the invasion of Ukraine was considered by stressing the variables used within the calculation.

Investment in Cream Finance Holdings Limited (Cream Finance)

Management considered the economic environment in which Cream Finance operates to be an indicator of potential impairment in terms of IAS 36 *Impairment of Assets*. Stress tests were performed on all key assumptions and the recoverable amount still exceeded the carrying amount. However, due to the geopolitical tension in Eastern Europe the prior year impairment of R122 million was retained.

Refer to note 3.1.3 and 3.1.4 to the financial statements for disclosure on the assumptions used in each of the impairment assessments above.

Special thanks and recognition

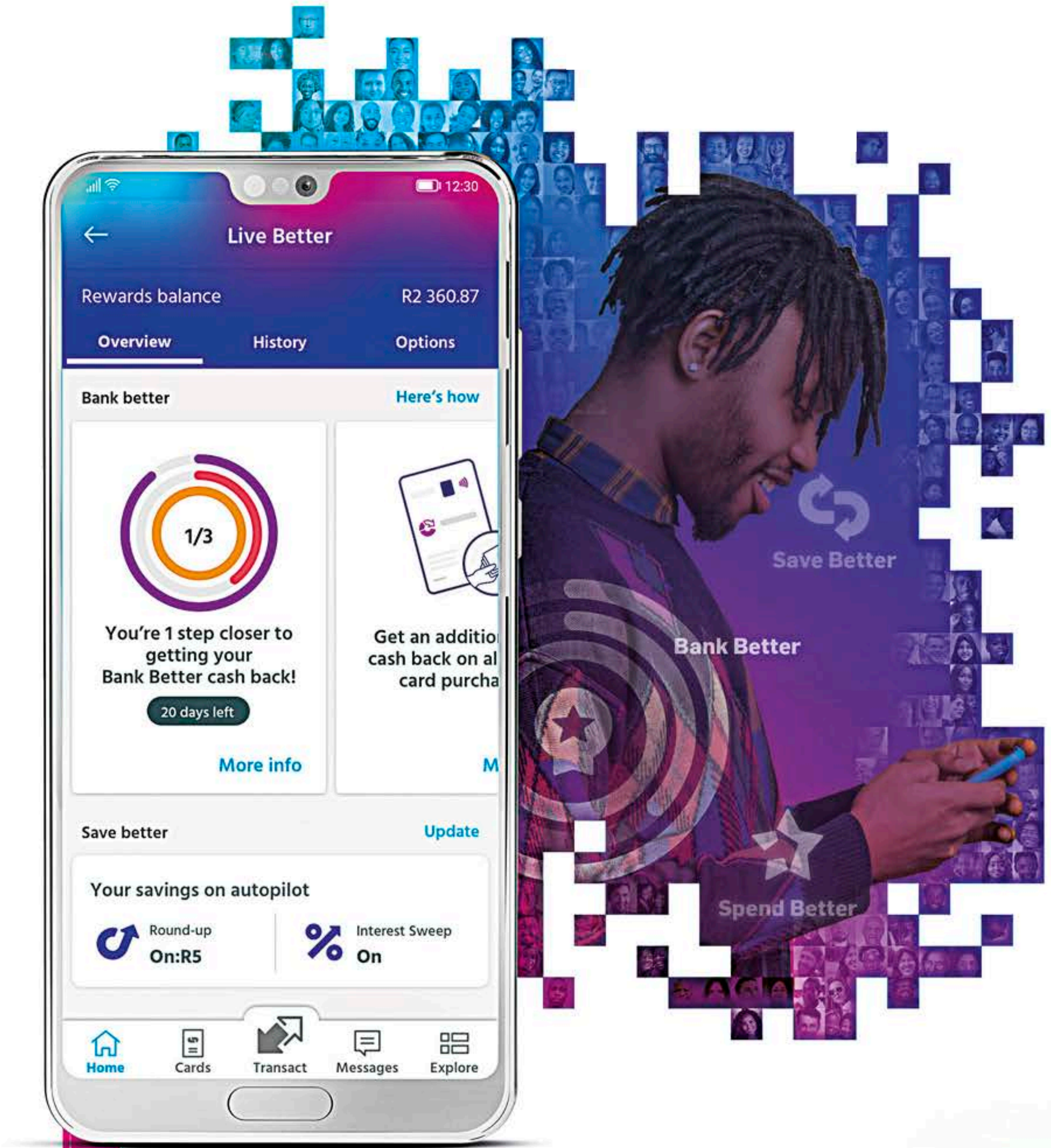
I would like to extend my personal thanks to the board, the group executive management committee (EXCO) and all my colleagues during the past 22 years, for being part of the Capitec success story and having the opportunity to serve Capitec and its clients.

A special thanks to my co-founders, shareholders and loyal clients who shared the vision of the founders in making banking simpler, more affordable, accessible and personalised. Without your continued support, Capitec would not be the bank that it is today.

Lastly, I would like to wish my successor, Grant Hardy, all the best for his new role as chief financial officer (CFO) of Capitec.

Andre du Plessis
Chief financial officer

Stellenbosch
12 April 2022



how we create value

Our purpose

To enable everyone to improve their financial lives and live better

Our core values

live **ceo**

Client first | Energy | Ownership

Our 4 fundamentals

- Simplicity
- Accessibility
- Affordability
- Personalised experience

Read more on page 25.

Our strategic objectives

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

Read more from page 36.

Our purpose

Our purpose is to create sustainable value for our stakeholders by improving people's financial lives and helping them to live better.

The bank for everyone

On a night flight back to Cape Town, an idea that became a plan was sparked, and by 2001 Capitec was born. Just more than 20 years ago, a small team began turning the dream of a bank for everyone into Capitec as it is today.

Our founding principles of simplicity, affordability, accessibility and personalised service guide us in challenging the *status quo* and designing innovative banking solutions for everyone, irrespective of factors like age or income.

The solutions we deliver create value for our stakeholders and make a meaningful contribution to the growth and prosperity of South Africa.

The COVID-19 pandemic, civil unrest, unemployment and uncertainty in the South African economy during the past 2 years was challenging but also presented opportunities for us to help people live better.

We live CEO

We live our core values of putting clients first, working with energy and taking ownership. These values drive our behaviour internally and externally.

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

We are ceo

Client first

- Greet with a smile and stand to show respect
- Listen, understand and connect
- Always have respect

Energy

- Enjoy what you do
- Be enthusiastic and positive
- Be quick and efficient

Ownership

- Take responsibility
- Take initiative
- Care about the outcome

Our unique fundamentals

Our 4 fundamentals are the foundation of our business model and they guide us in delivering on our purpose:

Simplicity

We remove the complexity from banking. Our products are easy to understand and transparent.

Our Retail banking offering is driven by a single solution named GlobalOne. This solution has 1 pricing structure for all clients. Credit solutions like our access facility and purpose-lending products make borrowing simple for retail clients. Saving is simplified by the automatic savings tools incorporated in our Live Better savings account.

Our digital innovations simplify banking for all our clients. Our Business bank is focusing on the way in which small businesses and entrepreneurs bank through digital innovation.

Affordability

We offer our clients value for money.

We run a low-cost business that is able to drive down pricing for transactions and credit.

We influence client behaviour towards more affordable cashless, self-service, automated and digital banking and encourage clients to consider affordability when taking out loans.

We incentivise clients to bank digitally by offering lower transacting costs on our banking app, which is the most affordable way to bank.

Accessibility

We are an omni-channel service provider that places clients in control of their banking anywhere, at any time and in any way.

Even though we are South Africa's biggest digital bank, offering internet banking via a web browser and smartphone app, banking clients can also access our services through our client care centre or branches.

Self-service terminals and digitalisation have transformed branches from places where cash is drawn and deposited to sales and service centres.

Personalised experience

We design the banking experience with client convenience and excellent service in mind.

Our immediate focus is to build a relationship with each client and help them take control of their financial decisions in order to live better. In a branch, clients are served seated so that they can engage with information on a computer screen. This empowers them to choose the personalised options they prefer and to feel in control of the process.

Our consultants are recruited from the areas in which their branch operates so that they can serve clients in their home language.

We use digital tools to measure a Retail bank client's experience and apply machine learning to improve our clients' overall experience of our service.

Our business model

Our resources	The risks we face	The outputs we created	Our desired outcomes	How we shared the value
Financial capital is derived from retained earnings, shareholder funds and deposits to ensure that we remain well capitalised.	• Model risk • Losing focus • Diminishing client service	**26%** (2021: 17%) ROE	**Investors enjoy the benefits of sustainable growth** and financial returns. Their confidence in us is affirmed by rating agencies and by the fact that key management holds shares in Capitec.	Dividends paid **R3 241 million** (2021: R4 million) Interest paid to wholesale funders **R336 million** (2021: R603 million)
Manufactured capital constitutes infrastructure such as leased buildings, data centres, ATMs, IT systems and remote banking solutions. Our products are supported on a single system with appropriate disaster recovery plans and security.	• Business continuity • Scalability of systems	**853** (2021: 857) branches **7 178** (2021: 6 725) ATMs, DNRs and CNRs		Value retained for growth **R5 532 million** (2021: R4 888 million) Supply of goods and services **R7 151 million** (2021: R6 300 million)
Human capital comes from people's competencies, capabilities and experience and their ability to motivate and innovate. We employ people for their potential and their fit with our culture and values. They provide us with the attitude and skills to achieve our strategic objectives. We create employment in local communities, remunerate fairly and are committed to providing equal opportunities.	• Internal/external fraud • Conduct risk	**14 758** (2021: 14 672) employees	**Employees are valued, recognised and rewarded** for their unique potential and talent as they maintain the client relationships that we value.	Employee remuneration and benefits **R7 301 million** (2021: R4 749 million)
Intellectual capital entails Capitec-specific knowledge. With extensive data collection and analysis capabilities, we use artificial intelligence to enhance innovative thinking in line with our core fundamentals. We continuously offer new ways of banking such as virtual card features.	• Cyberrisk • Data theft • Data optimisation • Disruptive technologies • Reputational risk	**10.1 million** (2021: 8.6 million) digital clients	**The client banking experience is transformed** and we elicit feedback that enables us to review our products and services to differentiate Capitec.	Interest paid to clients **R4 502 million** (2021: R4 381 million)
Social and relationship capital encompasses our relationships with clients, employees and other stakeholders including shareholders, regulators as well as the communities in which we operate.	• Third-party risk • Regulatory change • Fake news	**18.1 million** (2021: 15.8 million) active clients	**Society is served by our offering of affordable banking services** and our investments to develop and empower people through consumer financial education and employment. **Regulators and government can rely on us** to maintain healthy CARs, be a responsible lender and comply with all governmental and regulatory requirements.	Corporate social investment (CSI) **R40 million** (2021: R66 million) Income and other taxes **R4 261 million** (2021: R2 426 million)
Natural capital includes the renewable and non-renewable environmental resources which are impacted by our operations and business activities.	• Climate change	**20%** decrease in carbon footprint intensity per employee compared to the 2012 baseline	**Climate change** is everyone's responsibility and we conduct our business with a conscious effort to minimise harm to the environment.	

Our business activities

[Our purpose is to enable everyone to improve their financial lives and live better]

Our **Retail bank** activities are shaped by a single solution:

GlobalOne

Our **Business bank** activities are oriented towards digital banking services for entrepreneurs.

[We behave according to the **4 fundamentals** in using and transforming our core resources and resolving any trade-offs that need to be made]

Simplicity

Accessibility

Affordability

Personalised experience

Read more about our 4 fundamentals on page 25.

Our retail products

The digital GlobalOne experience grows client value.

Join Capitec

Open a new account on the app in 5 minutes *(facial biometrics and Department of Home Affairs)*

Get a free virtual card and order a physical card for delivery *(shop online immediately)*

Active Live Better *(no subscription, no points)*

Save and insure

Invest with the EasyEquities widget *(quick activation and reduced broker's fee)*

Set up flexible/fixed-term savings for free *(automate savings with recurring payments)*

Set up a Capitec Funeral Plan on the app *(active immediately and lower costs)*

Digital payments

Scan to pay from the app *(Masterpass, SnapScan or Zapper)*

Shop online (card or QR payments)

Immediate realtime clearing payments from the app *(reduce the need for cash)*

Get credit

Credit estimate on the app *(activate full application request)*

Capitec Direct grants credit with WhatsApp support and bank statement automation *(credit card, access facility or term loan)*

Home loan applications on the website *(accessible to all and paperless)*

Service support

Branches and client care

Client engagement

Over 30 million interactions per month

Multiple channels

Prompt next best actions

Our business products

The digital experience grows client value.

Join Capitec

Open a business transactional account (get a card delivered)

Full solutions for all your business needs (supported by Business Direct centre and digital banking)

Live Better benefits with Shell

Save and insure

Earn competitive interest rates on investment accounts

Choose your investment terms

Secure your business with short- to long-term insurance

Digital payments

Use internet banking and the app

Immediate realtime clearing payments on internet banking

Accept payments in your business with merchant services (card machines (desktop and mobile), QR payments, integrated systems)

Get credit

Competitive interest rates on credit facilities

Quick, personalised solutions to suit your business needs

Rental finance solution

Service support

Client care

Live virtual chat with a real person on internet banking

Business centres

Client engagement

Personal relationships are managed through relationship bankers and a central Business bank team enabled through technology like WhatsApp Business

Our latest innovations

Constant innovation enhances our product offering and helps our clients live better.

Live Better

Now everyone can save and earn cash back; with Live Better, immediate savings result from simply being a Capitec client. Whether it's shopping for essentials, getting from work to the office or saving towards dreams and goals, our benefits and cash backs will help clients on their journey to saving and living better.

Live Better savings account

In June 2021, we launched our Live Better savings account, an account that brings with it cash backs, automated savings tools and a great interest rate at no cost to our clients. Live Better is aimed at building a culture of saving, while bringing daily value to our clients, and the Live Better savings account is the product that enables this.

2 automatic savings tools come standard with the account – Round-up and Interest Sweep – enabling our clients to put away small amounts every day without ever having to think about it.

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

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

Over 4.5 million clients have activated the account, with over 2.1 million using the tools. Collectively, these clients have accumulated over R300 million.

Our latest innovations continued

Partner cash backs

Core to Live Better is partner cash backs. We currently have 3 cash back partners:

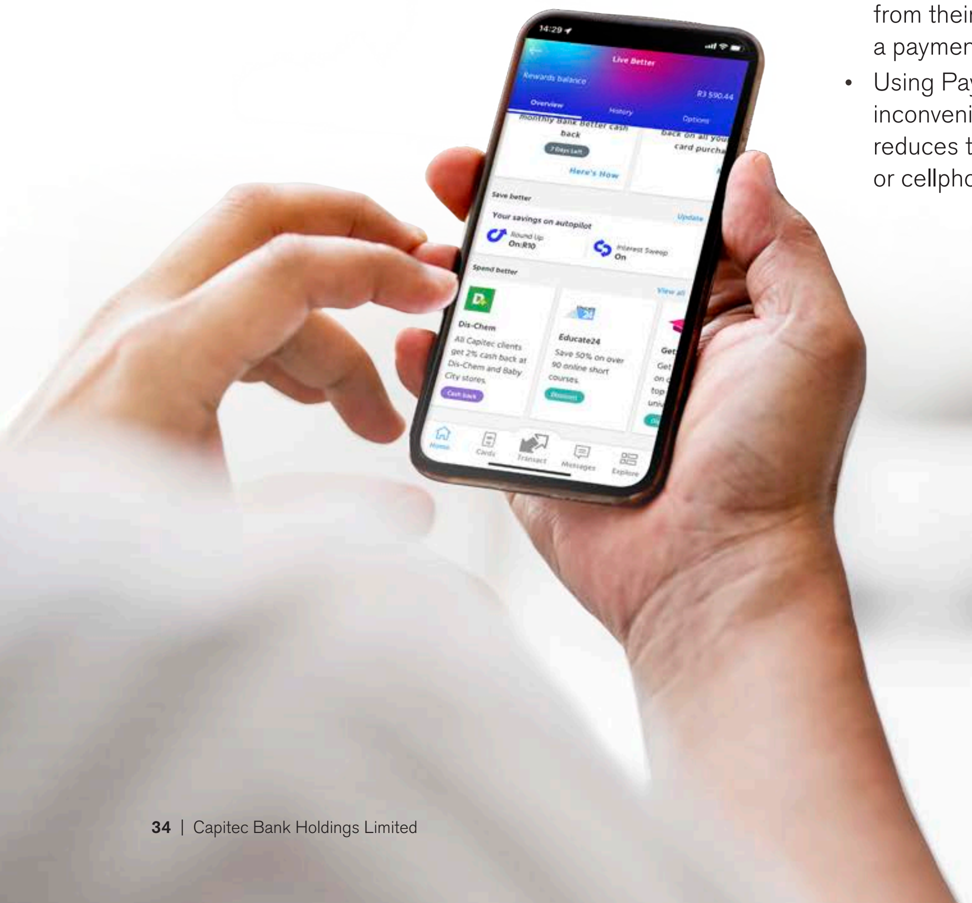
- **Shell V+ rewards**: Clients receive 20c per litre back on fuel and 0.5% cash back on selected items at participating Shell service stations.
- **Dis-Chem and Baby City**: All clients get 2% cash back at Dis-Chem and Baby City stores.
- **Bolt**: All clients receive 5% cash back, up to R100 per month, on all Bolt rides and Bolt food orders.

Every Live Better day (the 10th of every month), our clients receive cash back payments, just for having shopped at our partners during the previous calendar month. Our clients have earned over R49 million in partner cash backs and benefitted from R4 million in discounts since the launch of the initiative in 2021.

Discount partners

Further value is created through our discount partnerships which continue to grow and evolve.

- **Educate 24**: Save 50% on over 90 online courses.
- **Hello Doctor**: Get a 75% discount on your monthly subscription.
- **Rentalcars.com**: Save 10% on your car rental price.
- **Travelstart**: Save R100 on domestic and R400 on international flights.



In-app partners

EasyEquities

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

GetSmarter

Get a R4 000 saving on online courses at top South African universities through our app.

New products and technology

Remote onboarding

Simplified banking means we help prospective clients open an account, all from the comfort of their homes. Accounts, salary and debit orders can be moved in a few easy steps. Our banking app gives clients the control to open accounts with their smartphones. All they need is their South African ID or passport, and a few selfies.

Pay me

Pay me on the Capitec app generates a personalised QR code. It's a quick, safe way for Capitec clients to instantly pay money into a Capitec account.

- It's a payment service clients can use on our app.
- It allows clients to generate a secure QR code that consists of an array of squares similar to a barcode, and contains a unique client identifier (not their account details) that allows Capitec clients to pay each other.
- Clients can download and share their QR code with other Capitec clients.
- Capitec clients can then scan the QR code from their phone using Scan to pay on the app to make a payment into an account instantly.
- Using Pay me doesn't only reduce the cost and inconvenience of paying someone in cash, it also reduces the risk of entering the wrong account details or cellphone number when making payments.

Purpose lending

Capitec has tailored a credit solution that can help clients achieve their goals. Our products include home loans, vehicle finance options, home improvement partners, education and credit solutions for medical needs.

Home loans in the first year generated more than 30 000 applications via the Capitec Home Loan online platform, where clients can apply in 4 easy steps with no documents required. Clients receive up to 50% off in bond attorney fees and have a digital tracker to access at any time during the process.

Need-based credit is a loan of up to R500 000 over 84 months. Unlike a traditional personal loan, this loan is offered at a discounted interest rate and over an extended term. In addition to the loan, we provide clients with the required flexibility in using our access facility. Clients can only apply through one of our service providers' websites. If a client qualifies and credit is approved, the money will be paid directly to the relevant partner.

- The loan is offered at a discounted interest rate, which means clients pay less interest compared to any of our other credit products.
- The loan can be repaid over a longer term to pay a more affordable instalment.
- Applications are completed online in 4 easy steps – with no need to visit a branch.
- No further payments need to be made; the proceeds of the loan are paid directly to the partner.

Our purpose lending partners are:

- CTM
- WeBuyCars
- Mediclinic
- 10 education partners

Social media

In building the number 1 digital bank, we have made great strides in our online presence.

Facebook

Capitec Bank

We have more than **776 602 followers** – the second largest following among South African banks.

Twitter

Capitec Bank SA

We have more than **276 500 followers** – the second highest number of followers of any South African bank.

14.1 million expressions during February 2022.

Instagram

CapitecBank

Our Instagram account reaches **54 802 followers** – this is the largest following of all the financial service providers in South Africa.

The page grew by over **15.6%** in the past year.

YouTube

Capitec Bank

We have more than **41 701 subscribers** on YouTube. Subscribers increased by **34.5%** in the past year.

In 2022, the videos on the platform achieved **9.5 million views** and **67 700 hours** total watch time.

LinkedIn

Capitec Bank

Our highly engaged audience on LinkedIn has grown by **40.2%** to more than **451 339** over the past year, the highest growth in followers across all platforms.

Our strategic objectives

Our group EXCO follows a robust process every year to understand the needs and requirements of our stakeholders and define the medium- to long-term intent and direction of the organisation. Our clear and concise objectives provide our internal and external stakeholders with a clear view of our focus.

Performance against our objectives is measured through a series of integrated key performance indicators (KPIs) and individual goals that are linked to our remuneration strategy. This ensures everyone in the organisation is aligned to our strategic objectives.

Retail bank

Acquire and retain quality clients

Excellent client service experience

- Trust through stability and security
- Improved process, speed to serve client and efficiency in all banking channels
- Improved cash distribution and accessibility through partnership ATMs and tills
- Chat strategy
- Love for the Capitec brand

Credit excellence

- Digitalisation and paperless
- Purpose lending
- Non-salary/multiple income
- Credit card growth
- Improved credit granting
- Improved efficiency for collections and recoveries
- Ensure credit book stability

Client quality

- Conversions and cross-selling
- Next best action (automated decision delivered to all channels)
- Live Better
- Youth strategy

Create client value (beyond banking)

- Capitec Connect and airtime advance
- Value-added services Lotto and vouchers

Improve delivery efficiency

People

- Complete the organisation change
- Implement and reinforce the leadership principles/behaviours
- Team cohesion
- Hire and retain the best
- Implement centre of mastery

Digitalisation

- Significant increase in app usage
- Digital payments

Business bank

Launch and scale Capitec Business to become an industry leader

Rebranding to Capitec Business

- Launch Capitec Business
- Rebrand our corporate identity across all 5 businesses in Business banking
- Implement new pricing on transactional accounts
- Upgrade all business centres to the new look and feel
- Establish a relationship centre at the Sandton Campus to service small businesses
- Launch the new internet banking portal

Client growth

- Scale our Business bank to become a market leader

Manage scale

- Upgrade core banking and central workflow systems to handle scale
- Migrate our entire technology stack to the group data centre (cloud and on-premises)
- Implement a new rental finance system and upgrade the forex trading platform
- Launch the forex widget on the Capitec app

Transforming credit

- 85% of all credit applications to be automated
- Scaling of collections and recoveries
- Build scorecards for vehicle and asset finance as well as credit cards
- Automated and scored excess management
- Implementation of credit campaign strategies

Improve client experience

- Drive client adoption of all existing and new digital self-service capabilities
- Continuously measure and analyse client survey feedback on all new products and services
- Implement automated service level agreement management and reporting to internal stakeholders
- New remote onboarding capability for all clients and the integration of the merchant portal into the new Business banking portal
- Implement the loan management system
- Implement the client relationship management system
- Launch Live Better Benefits campaign for business

Shared services

Create the Capitec ecosystem

Business delivery

- Enable a positive client and stakeholder experience. This will be achieved by enhancing product functionality, reducing client friction, and supporting proactive planning
- Maintain platform stability so that Retail bank can focus on their 5-star client strategy unhindered
- Improve the predictability, efficiency and value of business delivery
- Reshape the organisation for speed and agility
- Create capacity and energy in Capitec by rewiring our operating framework to delight our clients, deliver everyday executional excellence and enable future growth
- Create capacity and energy by rewiring our operating framework and embracing the future of work

People

- Strive to improve our leadership's diversity and reach more learners to develop world-class capabilities with our functional academies
- Build a future-fit Capitec talent ecosystem
- Develop a diverse pipeline of talent that can successfully lead Capitec in a fast-growing and changing environment
- Build an enabling environment that is diverse, inclusive and safe, where our people can continuously learn, experiment and thrive

Technology and data

- Improve speed of product team delivery by enabling self-service on server runtime, container runtime, databases, developer services and build and deliver required platforms
- Improve machine learning capability across client insights, Business bank credit, anti-money laundering, fraud and digital commerce
- Complete migration to a web services-managed data environment

Interacting with our stakeholders

Our proactive approach towards interacting with our stakeholders enables us to create sustainable value. Our understanding of stakeholders' needs and requirements allows us to respond appropriately to material concerns.

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

Clients

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

Our strategy: | | |

Our employees

Requirements and interest	Channels used to interact and manage stakeholder expectations
• Healthy working environment post COVID-19 pandemic • Inclusive culture and diversity • Job security, fair remuneration and continuous development • Strong, inspired and decisive leadership • Industry-leading trends and strategic implementation • Effective performance management, recognition and training • Opportunities to make an impact	• Internal communication • Information sessions (monthly town halls) • Training and development • Website and intranet • Performance reviews • Employee wellness platform

Our strategy: |

We describe the value that we create for each stakeholder in our business model on page 26 and expand on our strategic objectives on page 36.

Strategic objectives

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

Government and regulators

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

Our strategy:

Society (suppliers, communities and civil society)

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

Our strategy: |

Investors and analysts

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

Our strategy: | |

corporate governance, environmental and social responsibility

Our governance structure

We achieve the 4 outcomes:

▪ **Ethical culture** ▪ **Good performance**

▪ **Effective control** ▪ **Legitimacy**

Capitec is a constituent company in the FTSE4Good Index Series.

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

Group structure

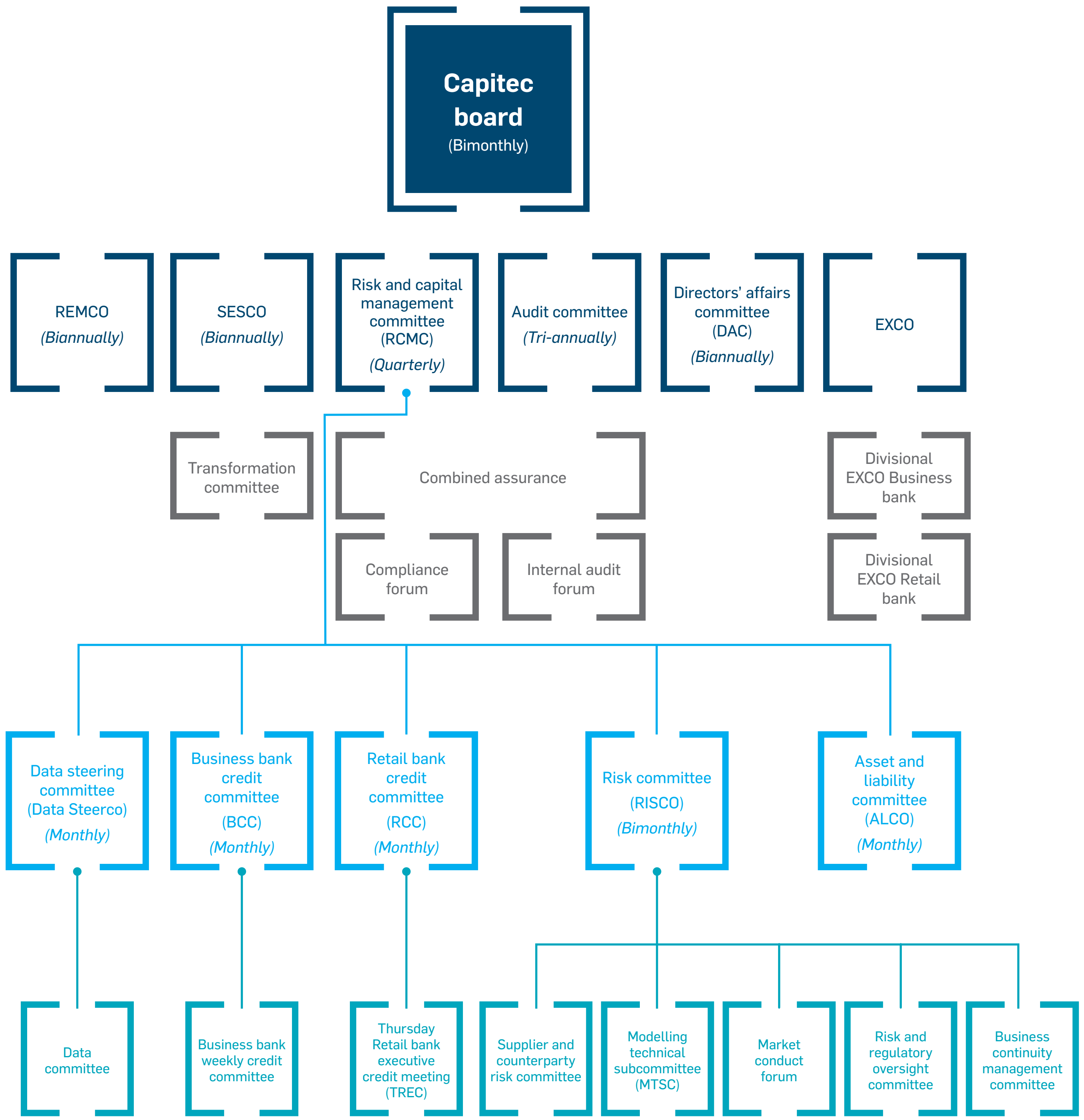
Capitec Bank Holdings Limited
1999/025903/06
Registered bank-controlling company incorporated in the Republic of South Africa and listed on the JSE.

- **100%** Capitec Properties Proprietary Limited
  1998/007658/07
  Property holding company incorporated in the Republic of South Africa
- **100%** Capitec Ins Proprietary Limited
  1984/010303/07
  Investment holding company incorporated in the Republic of South Africa
- **100%** Capitec Bank Limited
  1980/003695/06
  Bank incorporated in the Republic of South Africa
  - **Retail bank**
  - **Business bank**
  - **100%** Mercantile Rental Finance Proprietary Limited
    2011/001582/07
    Rental finance vehicle company incorporated in the Republic of South Africa
  - **17.5%** Imvelo Ventures Proprietary Limited
    2017/207086/07
    Supplier development vehicle company incorporated in the Republic of South Africa
- **40.86%** Cream Finance Holdings Limited
  HE335345
  International online consumer lending company incorporated in Cyprus
- **33.33%** Praelexis Proprietary Limited
  2012/149960/07
  Machine learning company incorporated in the Republic of South Africa

Excluding dormant companies and companies in voluntary liquidation.

Corporate governance

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



Corporate governance continued

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

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

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

Maintaining an ethical culture

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

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

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

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

The SESCO monitors compliance with ethical practices. No material ethical breaches were reported this year. The committee's report can be found on page 58.

Measuring good performance

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

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

Ensuring effective control

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

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

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

Maintaining legitimacy

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

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

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

The DAC is tasked with monitoring corporate governance. The key focus for the past financial year was ongoing refinement of the group corporate governance framework and processes and continued focus on board effectiveness. There were no material breaches during the year.

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

Our board

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

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

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

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

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

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

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

How the board functions

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

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

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

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

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

Corporate governance continued

Board composition and diversity

We support the principle of diversity to enhance the board's perspective. The composition of the board is reviewed continuously by the DAC to facilitate an appropriately diverse and effective board, including a relevant range of expertise, experience, industry knowledge, age, gender, race and culture. The majority of the board comprises independent non-executive directors. The DAC set the following targets for gender and race diversity in accordance with the board policy on the promotion of broader diversity and is satisfied with the improvement in diversity during the year. The focus on promotion of broader diversity at board level will continue.

	Actual %	Target %
Race diversity	31	35
Gender diversity	23	25

Read more about the diversity in skills and experience of our board members in the profiles from page 50.

Directors are appointed according to a policy that prescribes a transparent process. The DAC, under leadership of the chairman of the board, presides over board appointments. When specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction, and subject to the PA not objecting to the appointment, the individual is approached, and subject to passing fit and proper assessments, is formally appointed. Shareholders have the opportunity at the AGM, following the appointment of a new director, to endorse or veto the appointment. The board appointment policy is available on the company's website at **www.capitecbank.co.za/investor-relations**.

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

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

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

Board performance and independence evaluations

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

The results of the assessment for the 2022 financial year indicate that the board has an appropriate balance of power and authority and that it and its committees function well. Raising and debating different viewpoints are encouraged on the board. The tone at top executive management is appropriate and aligned with the board's expectations. There is a healthy and transparent relationship between the board and the CEO with a formal delegation framework that effectively separates duties and responsibilities. The board is satisfied that the evaluation contributes to continuous improvement of the board's performance and effectiveness. The lead independent director reviewed the performance of the chairman of the board and confirmed that she fulfills her role as chairman of the board appropriately and that her leadership of the board is excellent.

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

The Chairman

We have an independent chairman and a lead independent director. The lead independent director's role is determined by the board charter. According to the charter, the lead independent director, among others, provides leadership in situations where the chairman is deemed to have conflicting interests and he leads the performance appraisal of the chairman. A board-approved policy specifies how we ensure a balance of power and authority at board level. No one individual has unfettered decision-making powers.

The Chief Executive Officer

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

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

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

Company secretary

Yolande Mouton is the company secretary of the group. The company secretary acts as a conduit between the board and the organisation and is responsible for board administration, liaising with the Companies and Intellectual Property Commission, the JSE and providing corporate governance services to the board. Board members have access to legal and other independent professional expertise when required. This is at the cost of the group through the company secretary.

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

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

Board committees

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

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

Our leadership

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

Non-executive directors

Michiel Scholtz du Pré le Roux (72)

BCom LLB, DCom (hc)

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

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

Petrus Johannes Mouton (45) (Piet)

BCom (Mathematics)

Piet is the CEO of PSG Group. He serves as a director on the boards of various PSG Group companies, including Curro Holdings, PSG Konsult and Zeder Investments. He has been active in the investment and financial services industry since 1999.

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

Chris Adriaan Otto (72)

BCom LLB

Chris was an executive director of PSG Group and has served as a non-executive director since February 2009. He is also a director of Agri Voedsel, Distell Group, Kaap Agri and Zeder Investments.

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

Independent non-executive directors

Susan Louise Botha (57) (Santie)

BEcon (Hons)

Chairman of the boards and the DAC

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

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

Santie was appointed to the boards of Capitec and Capitec Bank as well as chairman of the boards on 1 June 2019.

Stanislaus Alexander du Plessis (49) (Stan)

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

Chairman of the RCMC

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

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

Cora Hedwick Fernandez (48)

BCom, BCompt (Hons), CA(SA)

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

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

Vusumuzi Mahlangu (51) (Vusi)

BSc (Chemical Engineering), MBA

Lead independent director

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

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

Thetele Emmarancia Mashilwane (46) (Emma)

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

Chairman of the SESCO

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

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

John David McKenzie (75) (Jock)

BSc (Chemical Engineering), MA

Jock served on the boards of Capitec and Capitec Bank from 1 March 2012 until 28 May 2021.

Daniel Petrus Meintjes (65) (Danie)

BPL (Hons) (Industrial Psychology), AMP

Chairman of the REMCO

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

Danie was appointed to the boards of Capitec and Capitec Bank on 28 November 2018.

Jean Pierre Verster (41)

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

Chairman of the audit committee

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

Jean Pierre was appointed to the boards of Capitec and Capitec Bank on 23 March 2015.

Our leadership continued

Executive directors

Gerhardus Metselaar Fourie (58) (Gerrie)

BCom (Hons), MBA

CEO

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

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

André Pierre du Plessis (60)

BCom (Hons), CA(SA)

CFO

André joined Capitec Bank in 2000 as the executive: financial management. He has extensive experience in business advisory services, financial consulting and strategic and financial management. He was the chief executive of financial management for Boland PKS and NBS Boland Group (1996 to 2000). He was a partner at Arthur Andersen, where he was employed from 1986 to 1996. He serves on the boards of Cream Finance, Praelexis and a non-profit organisation, Community Keepers.

André was appointed to the boards of Capitec and Capitec Bank on 2 May 2002 and will be retiring on 30 June 2022.

Nkosana Samuel Mashiya (46)

MCom (Economics)

Executive: risk management

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

Nkosana was appointed to the boards of Capitec and Capitec Bank on 1 June 2016.

Company secretary

Yolande Mariana Mouton (55)

BSc (Hons), MSc

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

Group executive committee

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

Rizwana Butler (47)

BSocSc (Hons)

Executive: human resources

Rizwana joined Capitec Bank on 1 March 2021. She has over 20 years' experience at global fast-moving consumer goods giant Unilever across both generalist and specialist fields. During her time at Unilever, Rizwana served in a number of local South African roles, regional roles across Africa, the Middle East and Turkey and more recently internationally leading talent, culture and organisation transformation. Her most recent appointments at Unilever have been as head of HR: Nordics and head of HR: East Europe across 20 countries. Rizwana started her career in 1997 as an HR management trainee at Tavistock Collieries, a coal mine subsidiary of JCI Limited.

Willem de Bruyn (51) (Wim)

BSc (Hons) (Computer Science)

Executive: business development and technology

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

Karl Rainer Kumbier (50)

BCompt, PGDA, CA(SA), CFA

Executive: Business bank

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

Hendrik Albertus Jacobus Lourens (56) (Henk)

BCom (Hons), CA(SA)

Executive: Retail bank

Henk joined Capitec Bank's predecessor in 1999 as head of the branch acquisitions department. He was appointed as Capitec's operations manager responsible for the Northern Cape, Western Cape, Eastern Cape, Free State and KwaZulu-Natal in 2001. He held this position until 2007, when he became the national sales manager. Henk was appointed as executive: operations on 1 January 2014. He started his career with Ernst & Young.

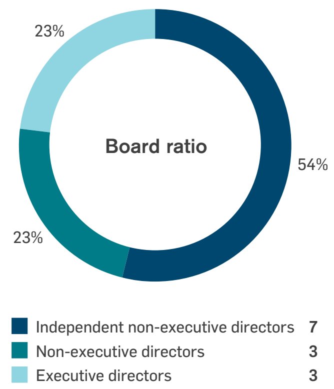
Francois Viviers (39)

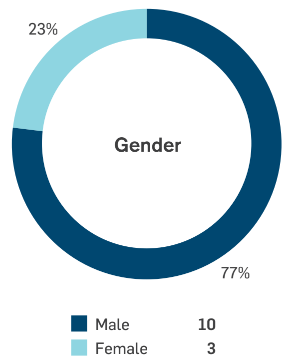
BCom (Hons)

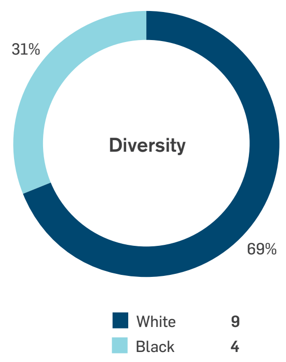
Executive: marketing and communications

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

There are 2 development seats on the group EXCO to provide senior employees with the opportunity to gain experience at an executive level. The incumbents rotate annually. The seats were filled by Monique Palmieri, head: compliance and Blessing Mgaga, head: solutions delivery and academy, technology services during the 2022 financial year. The development members for the 2023 financial year are Basani Maluleke, divisional executive: business solutions, banking and purpose lending and April Baloyi, head: Mercantile Rental Finance.







Our leadership continued

Attendance of board and committee meetings

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

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

[1] *Attendance by invitation.*
[2] *Professor SA du Plessis was appointed as a member of the audit committee on 1 March 2021.*
[3] *Mr V Mahlangu was appointed as a member of the REMCO on 28 May 2021.*
[4] *Mr JD McKenzie retired on 28 May 2021.*

Group executive committee

Composition	Purpose	2022/2023 focus areas
As per pages 52 and 53 and the 2 annually elected development members **Quorum** At least 3 of the following: CEO, CFO, executive: risk management, executive: Retail bank and executive: Business bank (quorum members) or replacement members as appointed by the group EXCO, subject to at least 2 being quorum members	• Conducts operational decision-making • Implements board-approved strategic decisions • Conducts ongoing approvals of an administrative nature **Meeting frequency** Meets twice a week with an extended monthly meeting	• The building of the Business bank Continued focus on: • client experience • client engagement • credit excellence • digital commerce

Audit committee

Composition	Purpose	2022/2023 focus areas
Independent non-executive directors • JP Verster (chairman) • SA du Plessis • CH Fernandez • TE Mashilwane **Management attendees** • AP du Plessis • GM Fourie • NS Mashiya • M Palmieri (compliance) • D Flannery (internal audit) **By invitation** • All directors • External auditors **Quorum** At least 50%, but not fewer than 2 members	• Considers the combined assurance arrangements with a focus on internal audit, compliance and external audit • Evaluates the adequacy and efficiency of the internal control systems and accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of the business • Evaluates the going concern status of the group • Considers the continuous independence of the external auditors • Considers the integrity of the financial statements and the sustainability matters forming part of the integrated annual report • Considers reports dealing with the requisite disclosures in the financial statements • Reviews the financial statements for correctness and recommend these to the board for approval • Consider the CEO and CFOs responsibility statement	• Assessment of the critical accounting estimates and judgements applied by management, given the particularly uncertain economic conditions and growth in the access facility • Assessment of general financial controls in the context of recent new system implementations and heightened cyberrisk • Consideration of appropriate accounting treatment and disclosure of intragroup transactions, given the recent separation of the Insurance business • Monitoring and evaluating succession in the Finance function The Audit committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

The audit committee's report for the year is on page 134.

Directors' affairs committee

Composition	Purpose	2022/2023 focus areas
• SL Botha (chairman) • All non-executive and independent non-executive directors **Quorum** At least 50%	• Monitors the effectiveness of corporate governance • Deals with matters relating to the nomination of new directors according to a board-approved policy • Evaluation of the performance of the board and its committees	• Ongoing refinement of the corporate governance framework and processes The DAC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Our leadership continued

Human resources and remuneration committee

Composition	Purpose	2022/2023 focus areas
• DP Meintjes (chairman) • SL Botha • V Mahlangu (from 28 May 2021) • JD McKenzie (up to 28 May 2021) **Non-executive director** • CA Otto **Management attendees** • GM Fourie • R Butler **By invitation** • MS du Pré le Roux **Quorum** At least 50%	• Ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act and its regulations • Ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders	Refer to the remuneration report on page 102 for the focus areas. The REMCO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the remuneration report on page 102 for more information on the REMCO's activities.

Risk and capital management committee

Composition	Purpose	2022/2023 focus areas
Independent non-executive directors • SA du Plessis (chairman) • V Mahlangu • JP Verster **Non-executive directors** • PJ Mouton • CA Otto **Executive director** • AP du Plessis **Management attendees** • GM Fourie • NS Mashiya • D Flannery (internal audit) • M Palmieri (compliance) **Quorum** At least 50%, but not fewer than 2 members	• Assists the board in evaluating the adequacy and efficiency of the risk and capital management systems and processes and the significant risks facing the group • Monitors that risk assessment is performed continuously • The chairmen of the audit committee and the RCMC serve on the respective committees to facilitate increased effectiveness of the respective functions • Monitors risk management in the group	Continued focus on: • credit risk • IT and cybersecurity risk • impact of Financial Sector Laws Amendment Bill and the introduction of financial loss-absorbing capital and deposit insurance • risks related to COVID-19 • regulatory and legislative developments The RCMC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

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

Social, ethics and sustainability committee

Composition	Purpose	2022/2023 focus areas
Independent non-executive directors • TE Mashilwane (chairman) • DP Meintjes • NS Mashiya **Management attendees** • R Butler • N Khoza (CSI) (up to December 2021) • L Moodley (CSI) (from February 2022) • YM Mouton • M Palmieri (compliance) • R Wentzel (operational risk) **Quorum** At least 50%, but not fewer than 2 members	• Monitors activities relating to social and economic development, good corporate citizenship and the environment to promote the collective well-being of society, thereby facilitating the sustainable growth of the group • Tracks the impact of the group's activities and service, with specific focus on client and employee relations • Sets strategic objectives for sustainability and monitors ESG management in the context of the said ESG principles	• Driving sustainability principles in a manner that fundamentally integrates same into the Capitec culture and business strategy • Achieving level 3 B-BBEE status The SESCO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the SESCO's report from page 58 for SESCO's contribution.

Ad hoc committees

Large exposures committee

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

Investment committee

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

Social, ethics and sustainability committee report

The SESCO monitors the group's activities in:

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

The committee functions within the scope of an annually reviewed board-approved charter and meets twice a year. A record of meeting attendance can be found on page 54.

The members of the SESCO are:

- Emma Mashilwane (independent non-executive director and the chairman)
- Danie Meintjes (independent non-executive director)
- Nkosana Mashiya (executive: risk management).

Read more about the committee members' qualifications and experience in their profiles on pages 51 and 52.

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

Key focus areas

Social and economic development	Our fundamentals and values – pages 24 and 25 Human rights – page 73 Zero tolerance for fraud and corruption – page 87 Employment equity – pages 61 to 68 B-BBEE – page 74
Good corporate citizenship	Social responsibility – pages 69 to 74 Our business model – pages 26 and 27
The environment, health and public safety and the impact of the company's activities and of its products and services	Pages 75 and 76
Consumer relations and commitment to consumer protection laws	Pages 89 and 90 The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.
Labour and employment	Pages 61 to 68

The company demands a high standard of ethical conduct in its business practices and its dealings with stakeholders. Employees have access to a code of ethics and a range of policies giving guidance on ethical conduct on the company's intranet, and are encouraged to ask questions, report suspicious activities to management or through Tip-offs Anonymous and to uphold the Capitec Way.

Ethics coaching is incorporated in general employee training to guide employees in expected ethical conduct. The legal, compliance, internal audit, forensic and training departments all form part of the assurance process to facilitate an ethical outcome in the company's activities.

Refer to page 46 for further information on the board's responsibility for creating an ethical culture.

Planned areas of focus for 2023

- Driving sustainability principles in a manner that fundamentally integrates same into the Capitec culture and business strategy
- Achieving level 3 B-BBEE status.

Report

The committee reviewed the relevant matters during the year and, based on the reports submitted to the committee and discussions with management, is of the view that appropriate policies, systems and internal controls are in place, supported by a conscientious management team, to promote ethical conduct, good corporate citizenship, environmental care, fair labour practices and sound consumer relations.

The committee is of the opinion that the group complies, in all material respects, with legislation, regulations and codes of best practice relevant to the committee's mandate. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year and confirms that there were no instances of material non-compliance to disclose.

Emma Mashilwane
Chairman of the SESCO

12 April 2022

Delivering on sustainability goals

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

Unlocking potential in our people

A renewed people vision

We are united by a strong sense of purpose – to make financial solutions simple and transparent so that our clients can live better. With an incredible 20-year history of rich heritage, timeless values, our 4 fundamentals and deep-rooted CEO behaviours (as discussed on pages 24 and 25), our business has proven its resilience time and again to weather any storm and come out stronger.

Our scores in our most recent employee pulse surveys are a clear indication that our people are with us. Levels of confidence in the business and people engagement remain relatively high. What is clearly emerging now is COVID-19 fatigue and lower levels of positivity and optimism as we face continuing waves of the pandemic.

In a changing environment, both internal and external, our sources of competitive advantage today do not guarantee success for tomorrow. We therefore need to consistently 'disrupt' ourselves and reinvent our way of work to ensure we continue to win and outcompete.

For our business to be successful in these areas, we need to have the right people, with the right skills, in the right place, at the right time to carry out the strategy. Client needs are changing. We have realised that the characteristics of our client of today are not necessarily what they will be tomorrow. Our ambition to grow the business is bold and audacious. Our must-wins across the group are clear and focused and, at the same time, stretching and demanding. Our ways of working are evolving to empower and keep us accountable.

Take all the above everyday business challenges, add on a prolonged global pandemic and socio-political uncertainty, and we quickly start to realise the impact of all these changes on our people. This calls for a fundamental shift in our people strategy to reconsider the way we lead, develop, support and engage our people.

Our vision is to make Capitec the place of choice for world-class talent to unlock their full potential. We are on a mission to create great insights, innovation, experiences and moments that matter, that inspire our people and drive business performance.

We will succeed by delivering people solutions that are guided by Capitec's key fundamentals of simplicity, accessibility, affordability and personalised service, and through our new HR operating framework and refreshed organisational structure.

After all, if we truly want our people to live these fundamentals for our clients, we must surely live these fundamentals for our people in all our internal practices.

93%

of employees are from designated groups[(1)]

74%

of our workforce is 35 years and younger

86

increase in employees to 14 758

[(1)] *Designated groups are defined as per the Employment Equity Act, Act 55 of 1998.*

Unlocking potential in our people continued

We are on a journey to outpace the growth of our business with the growth of our people, built on 5 key strategic levers:

01 **Attract and retain the best talent**: attracting the very best talent into our organisation and creating a great employee experience that makes them want to stay.

02 **Manage and develop for the future**: developing our people and harnessing their talents, to deliver a strong pipeline for executive and senior succession.

03 **World-class skills and capabilities**: building new people capabilities of the future, with a focus on leadership, digital and technology skills.

04 **Rewire the organisation for speed and agility**: embedding new ways of working and organisational set-up for the future.

05 **Nurture our growth culture**: ensuring inclusion and belonging for all in addition to prioritising health and well-being.

Attract and retain the best talent

Our goal is to create a fluid supply of diverse and best-in-class talent for Capitec's present and future needs, with special focus in the technology, digital and data space. We want to be the company of choice for our investors, and the bank of choice for our 18.1 million clients – so too are we striving to be the preferred employer of choice.

Capitec is a growing brand and organisation in a highly competitive industry, creating job opportunities year after year. The awareness and attraction of top talent remains a key objective.

We therefore continue to focus on attracting top talent who have the appropriate skills, experience, values and diversity to support our business model and strategies. The competitive talent landscape we operate within necessitated a strong employer brand recruitment marketing approach to attract best-in-class talent. The Capitec positioning of available job opportunities was showcased through a continued display of our culture, leadership and people through our corporate careers site, social media platforms, job boards and professional networks and channels. Through these channels, we have shared our vision, our employee stories and insight into our leadership and culture – a sense of why we are proud to work for Capitec. We have seen this resonate with our target market, a key consideration for sought-after external talent when considering their next employer. To this end, we have seen a significant increase in application rates within targeted niche skill sets and our LinkedIn followership, contributing to a healthy external appointment rate.

In the 2022 financial year, Capitec appointed 1 367 new external employees into a vacant or new job opportunities. This is an increase of 72.8% compared to the 2021 financial year, which was affected by the initial COVID-19 lockdown period. Of all appointments from external candidates appointed into vacant or new job opportunities, 86% were affirmative action appointments.

We have a strong focus on hiring technology and data talent to support the digital innovation in the business. This saw 26% of the total external appointments in these niche skill sets, executed by a centralised specialised sourcing and acquisition team in partnership with business owners.

Our 48% internal appointment rate remains a strong driver of retention and development. We achieve this by offering career mobility, and, given the impact of COVID-19 on our work environment, enabling remote work and different ways of working. This is in the context of a 86 net growth of employees over the reporting period, bringing our total number of employees to 14 758 at year-end.

Our recruitment process includes the holistic assessment of candidates to determine best fit for the position. This year, we saw initiatives within this space specifically focused on an improved candidate experience, while supporting efficiencies for the hiring manager. This includes the introduction of mobile-enabled technology such as video interviews within our branch and business support divisions, enabling a seamless, remote hiring process and engaging candidate experience as well as the implementation of a live coding environment assessment for niche technology roles. We aim to hire only the best-quality talent to further strengthen our internal pipeline. We will further refine this by creating an engaging experience, aligned to our values and leadership principles, and by ensuring that our hiring practices and systems are designed for consistency and for a digital world.

The focus for the 2023 financial year will be to strengthen the Capitec employer brand by further positioning Capitec as an employer of choice for both internal and external talent, with a strong focus on how we engage and interact with prospective employees.

- We aim to consistently hire better-quality talent by improving our hiring design for the future. We will digitalise the process, where possible, to increase throughput and ensure consistency, while still maintaining a personalised and human experience.
- We will shape our hiring process towards proactive sourcing and the establishment of talent pools, enabling the business to engage and appoint pre-screened talent on demand. This approach also entails a review of our top sources to enable an ongoing supply of talent to the business.

Manage and develop for the future

Building a diverse talent pipeline remains one of Capitec's key strategic objectives to sustain and enable the company into the future.

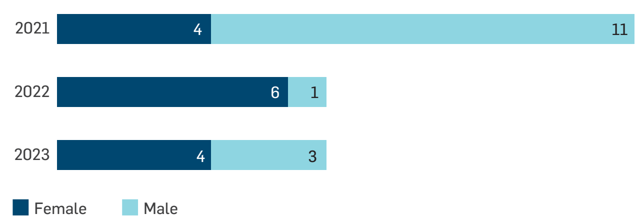
This year, proactive succession planning served our business well. Out of our filled senior leadership positions, 59% were internal appointments of which 43% were female and 33% from designated groups.

We have also seen our first middle management appointments from those graduates who successfully completed the development programme, all of whom are from designated groups. We continued to build our future leadership pipeline with 11 graduates successfully completing the programme and entering business in 2021. There are currently 11 graduates in the programme, including 4 graduates finalising their rotation in 2022. The graduates are 45% female and 82% are from designated groups.

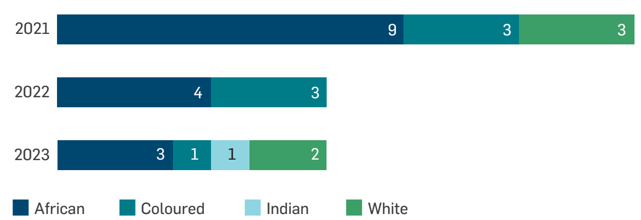
In certain areas of our business, we need to renew our efforts to replenish our talent pools. To this end, we have adjusted our talent strategies. This year, we will reboot performance practices to support a culture of accelerated performance and growth. This renewed approach aims to ensure that employees receive continuous in-the-moment feedback, are guided through goal setting directly aligned to strategic initiatives to ensure focused delivery with impact, and performance outcomes determined by a balanced weighting of hard measures and leadership impact.

Building our internal specialist pipeline for scarce and critical roles within technology, credit management and financial management, is crucial to our success as an organisation. As such, we will continue our efforts to sponsor suitably qualified equity candidates' tertiary education in these specific fields of study. In the 2021 academic year, we added 3 bursars to our external bursary programme; 5 bursars who completed their studies in the 2021 academic year were placed in our business as employees in 2022.

GENDER DIVERSITY OF EXTERNAL BURSARS PER YEAR



RACIAL DIVERSITY OF EXTERNAL BURSARS PER YEAR



In addition, we partner with institutions that support underfunded talented youth to live up to their potential, and we supply funding options through strategic sponsorship opportunities. This supports the continued identification of young talent for the business. For the 2021 academic year, 11 young people (100% designated) were sponsored through the Make a Difference Leadership Foundation. We continued engaging with them during the year to determine potential future placement within the business.

Unlocking potential in our people continued

Our formal learning initiatives continue to play a key role in providing employees with additional development and growth opportunities, while also addressing key business pipeline requirements. We provide employees with access to 4 learnership programmes that are hosted internally in collaboration with external providers, as follows:

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

During the past year, we offered all employees the opportunity to learn and grow through 4 learnership programmes that managed a combined intake of 1 458 employees. We have also added 25 new bursars to our internal bursary programme which brings our total number of active internal bursars to 216.

Going forward, we will integrate Capitec's approach to internal development, thinking near to medium term, with a plan 3 to 5 years ahead. We will continue to deliver objective and fact-based assessments for all pipeline programmes (graduate development programmes, internal and external bursary schemes, internships and learnerships) to formalise readiness and development priorities.

Build skills and capabilities for the future

The development of our employees has always been a top priority for our business. It is seen as one of the most important enablers to unlock the full potential of our employees and our business. We have, despite the challenges of the pandemic, continued to strive towards delivering learning opportunities that enhance the competence levels and performance of our employees while supporting the growth of our business and realisation of its strategy. The table below represents the number of employees attending formal learning courses (face-to-face and virtual). These numbers increased across the 4 categories, coinciding with the repealing of lockdown restrictions.

Number of employees attending courses (face-to-face and virtual)	2022	2021	2020
Induction/onboarding	**1 247**	794	2 555
Functional and technical	**2 067**	1 704	1 695
Management and leadership	**658**	586	2 463
Compliance	**671**	284	828

Digital learning continued to be an effective and scalable option to deliver learning resources to employees as required by business. Reasons for year-on-year changes in completion rates of learning required by business are, the reduction in induction/onboarding learning courses by combining them into fewer, more comprehensive resources; the roll-out of new leadership programmes and content; and a compliance learning drive with some revised content.

Required digital learning courses completed	2022*	2021*	2020*
Induction/onboarding	**4 046**	9 757	3 495
Functional and technical	**13 359**	11 799	13 223
Management and leadership	**5 217**	559	1 378
Compliance	**15 472**	12 759	13 740

* *This year, we improved the measurement of courses completed by eliminating repeated completions of the same course by the same employee. To aid comparison with previous years, we restated the previous years' values using the improved measurement definition.*

In addition, we have identified the following priorities that we believe will enable Capitec to realise its vision and strategy:

- **Learning culture:** We have learnt throughout the pandemic that to ensure our employees stay motivated and engaged, learning and development is critical. We therefore need to democratise learning and make it easily accessible for all. Our employees have told us it is a key value of self-worth amid a changing world where very little is in their control. Our digital learning capability will focus on improving employees' motivation to learn, increasing the variety of learning resources available to learn from, and making learning accessible to all employees, anywhere and anytime. During the past year, we have made significant progress by adding more online learning programmes and resources to our existing catalogue of learning, while enhancing the accessibility of our online learning through our mobile learning application. We currently have an online learning library with 1 439 learning resources for employees to use for self-directed learning covering a full range of functional, technical, management and leadership training.

  The figures below represent the percentage of employees who opted to select their own learning, per category of learning, one of the most important indicators of a learning culture.

% of employees who completed self-directed digital learning	2022 %
Induction/onboarding	**19**
Functional and technical	**81**
Management and leadership	**41**
Compliance	**23**

  Although the above figures are encouraging, our strategy is to augment our digital learning capability even more next year with technologies that create a learning culture where employees are encouraged and enabled to own their learning. We will know that we have been successful if we achieve an increase in self-directed learning, a positive sentiment towards the available learning content and have established the sharing of self-curated learning as household practice.
- **Leadership development**: During the past year, we implemented a 2-year executive development programme with the purpose of developing senior leaders who are part of the Capitec leadership succession plan and responsible for the design and delivery of Capitec's strategy. We also identified the development of the next generation of leaders and the deepening of our leadership succession pipelines at all leadership levels as a key objective to ensure the sustainability of our business. With leadership development earmarked as a priority, we have defined a new set of leadership principles to ensure consistency in the behaviour of our leaders at all levels. While we have started with the process of embedding these leadership principles in the business, we believe that a large part of next year's focus will be on the maturing of the leadership principles and making them part of our day-to-day leadership activities. Aligned to our leadership principles, we have also embarked on the design and implementation of a leadership academy that will provide leaders at all levels with the opportunity to grow into world-class leaders. The building of the leadership academy will be a 2- to 3-year journey and our focus for next year will be to complete the current executive development programme and introduce a programme at mid-management level of the leadership academy. This will be followed by further programmes over the next few years. We will measure the success of our leadership development through an increase in our leaders' capability to lead daily, as well as the depth of our leadership succession pipeline at all levels.
- **Digital skills**: While South Africa is battling a significant skills shortage, especially in the data, digital and technology arena, many skilled South Africans now extend their services beyond the borders of South Africa through remote working. We have, during the past year, introduced our data and technology academies, ensuring that we are able to accelerate the growth of all our people, including our specialists, by ensuring they remain at the forefront of new skills and capabilities. We have also started with initiatives to build a future pipeline of specialists in these areas. During next year, we will mature our data and technology academies by adding more specialist programmes, as well as capability development for employees at large in support of the digital transformation of our organisation. We will also invest in partnerships with external parties to further strengthen our pipeline of future specialists for our organisation. We will measure our success through the successful completion rate of learners at the academies, as well as the adoption rate of learners who participate in our pipeline-building initiatives.
- **Business banking skills**: We have, during the past year, introduced the foundational level of a multi-level programme to fulfil the capability and skills requirements of the Business bank relationship model. The Business bank curriculum will provide employees with the opportunity to obtain a qualification and build their business banking capabilities. During next year, we will introduce further programmes in the Business bank curriculum and thereby enhance our ability to unlock the business potential of Capitec. We will know that we have been successful through an increase in learner capability and its positive impact on the maturing of the Business bank relationship model.

Rewire the organisation for speed and agility

To respond faster to client needs and the competitive landscape, and to accelerate business delivery, requires us to manage capacity and energy within the organisation. To do this, we need to rewire our business to deliver on everyday executional excellence while enabling for future growth. During 2021, the HR team supported business delivery with various structure reorganisation requests to align with reviewed and renewed strategies. These reorganisation requests included a total redesign of divisional structures, operating models and ways of working (i.e. client experience delivery – retail, business support), to the centralisation of departments and teams from business banking into shared services (i.e. business development and technology and risk management).

We will continue to embrace a renewed organisational structure for the future and embed new ways of working

Unlocking potential in our people continued

that allow our people to quickly adapt and respond to changing requirements. We will create agility in our organisation by fluidly moving people to where the work is and unlock potential through well-defined and easy-to-use people practices, processes and systems to support the effortless movement and seamless appointment of people based on business needs. The mapping of clear learning journeys and career paths will enable the multi-skilling and reskilling of our people to engage in a variety of roles across Capitec, when and where required. This is a critical enabler for our people to remain engaged, inspired and thrive in this new reality.

A recent example of this is how we managed the organisational impact of the riots and unrest which erupted in Durban and Johannesburg in July 2021. Thousands of individuals in the organisation were affected and 76 of our branches suffered significant damage as a result. Aside from the support these employees received in dealing with the crisis on a personal level, our key priority was to ensure that every employee continued to have a home and had the opportunity to find meaning and purpose during this difficult time. Approximately 350 branch employees were seconded across the business to support divisions, with the majority being seconded to Capitec Direct while their branches were being repaired. This enabled us to continue to serve thousands of clients who could no longer be served by their local branches, while ensuring our employees remained engaged, continued to learn new skills and honed existing skills.

Nurture our growth culture

Capitec's DNA is one of rapid innovation and excellent execution. This requires a culture that supports diverse, inclusive and effective teamwork. Getting this right will help create an environment where all our employees can thrive and perform at their best.

During 2021, we redefined our diversity, equity and inclusion strategy, detailing our vision to create an enabling, inclusive environment that embraces and celebrates diversity. To commence this journey of transformation, various activities and campaigns were launched this past year, including employees selecting a new employment equity committee representing the various occupational levels within the company, tasked as a consultative forum to partner with the business to help drive transformation. A new plan has been drafted for the company as the current 3-year plan came to an end in November 2021. Transformation targets were agreed with each business area and progress will be monitored. Of the 51 senior appointments concluded at head of department level this year, 20 are female.

The following tables are as per the employment equity report submitted to the Department of Labour for the period December 2020 to November 2021, as per their statutory requirements:

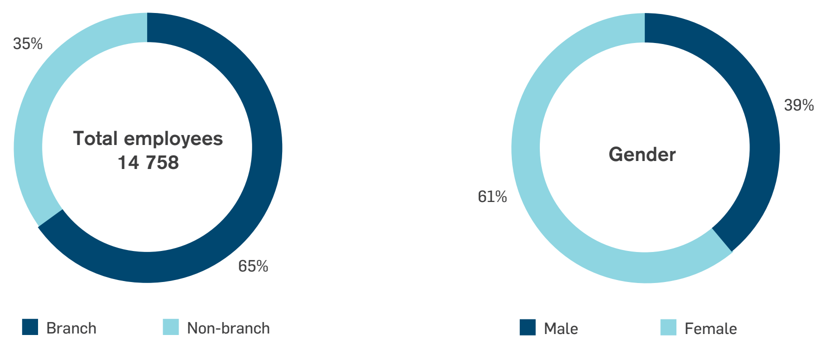
Occupational level	Designated	Non-designated	Total	Designated %
Top management	8	14	22	36
Senior management	22	68	90	24
Middle management	540	675	1 215	44
Other employees	12 520	1 006	13 526	93
Total representation	13 090	1 763	14 853	88

Good progress has been made on top, senior and middle management levels. The top management level improved by 19%, senior by 1% and middle by 4% compared to last year. With the new proposed employment equity targets set, we will continue to work towards improving the representation on middle, senior and top management levels through succession planning and sourcing of external candidates.

Gender	Female	Male	Total	Female %
Top management	4	18	22	18
Senior management	30	60	90	33
Middle management	419	796	1 215	34
Other employees	8 645	4 881	13 526	64
Total representation	9 098	5 755	14 853	61

Female representation is 61% for the company. We will continue to focus on actively sourcing female candidates, both internally and externally, to increase female representation in leadership positions at middle, senior and top management levels.

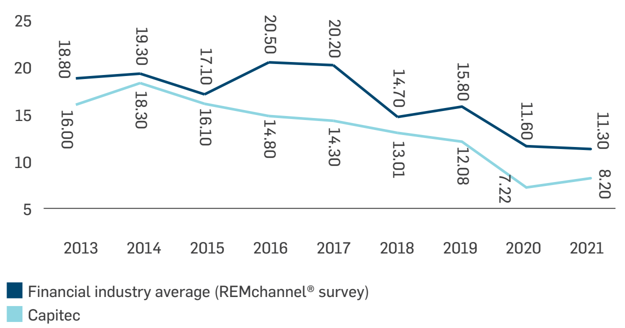
EMPLOYEE PROFILE (%)



We implemented several campaigns to educate and create awareness among employees. These include the Women's Month campaign focusing on #InnerStrength and 16 Days of Activism Against Gender-based Violence (including sexual harassment) focusing on #BreakTheSilence. The focus for the coming year will be inclusion focusing on racial equity, gender equity and empowerment and people with disabilities. Through inclusion, our focus is on creating an environment that is psychologically safe, diverse and inclusive, where all our people have a sense of belonging, feel valued and can continuously learn, experiment and succeed. Clear deliverables, activities and learnings have been mapped, to be delivered next year.

We continue to drive awareness and adherence to the sound employee-related policies we have in place. Our policies govern subjects such as discipline, grievances and sexual harassment, and we continuously monitor developments to ensure compliance with applicable legislation. We continue to invest in building the relationship between SASBO (The Finance Union) and Capitec with mutual respect and understanding. As a result, all matters engaged on were settled based on discussion and engagement, and there was no loss of working hours due to industrial action during the reporting period. Although the relationship is governed by a collective agreement, both parties have engaged with one another outside the confines of the agreement where issues affecting employees have been raised. This has been evident since the signing of the recognition agreement in June 2020 and especially since the emergence of COVID-19. Although these engagements have been challenging at times, both parties have dealt with the conversations respectfully, which is indicative of their shared commitment to build a sustainable relationship.

CAPITEC EMPLOYEE TURNOVER RATE PER CALENDAR YEAR VERSUS THE FINANCIAL INDUSTRY AVERAGE (%)



HR transformation – A key enabler

In 2021, we rolled out our existing HR technology systems and processes to the Business bank, extending to them the services afforded to the rest of the group, and in doing so, aligning the employee experience and HR service delivery.

In the coming year, we will look introspectively at how we can extend our client-centric, personalised service culture further in relation to our internal client experience and we will stay abreast of the most significant and pertinent developments in terms of HR transformation and technology. Major internal implementations include:

- a people support centre to drive client-centric, personalised service in a scalable way
- a re-evaluation of our payroll process enablement, and how this can better complement the planned people support centre
- a refreshed learning experience platform to support the 'build skills and capabilities for the future' strategic lever
- a redesign of internal people processes for an exceptional employee experience.

In conclusion

The past year was another challenging year where Capitec employees (like many others) had to come to grips with the reality of a protracted pandemic, and all its knock-on effects, while still delivering on our business objectives. Knowing that the pandemic would continue beyond what anyone originally could have thought, and the growing uncertainty about when, or even if, it would ever end meant a fundamental reset in how we approached the year. It was a year of empathy and care and a year of learning to build and manage relationships and work differently through a hybrid model. To manage capacity while building new capabilities, we refreshed our strategic thinking to ensure we prioritised critical levers only and adapted them to the new realities, allowing us to be agile for our dynamically unfolding context.

In the 2023 financial year, many of the challenges of the previous year will remain and we expect another year of business unusual. However, we also believe it is our year where we continue our journey with hope, optimism and confidence focusing on delivery excellence of our refreshed people approach while bringing individuals, teams and the organisation together.

Contributing to our society and communities

We design our Capitec Foundation and consumer education programmes to play an active role in addressing the numeracy and financial literacy challenges in South Africa. This aligns to our purpose to enable people to improve their financial lives. In addition, our Capitec employee volunteer programme encourages employees to actively participate in and support initiatives that uplift our communities.

Contributing to our society and communities continued

Social investment

Our CSI initiatives focus on addressing issues affecting our communities. Our strategy is drawn from the UN SDGs, particularly on quality education, zero hunger and no poverty.

Our CSI initiatives featured 3 main areas of support: improving numeracy through education programmes in the Capitec Foundation, community support through employee volunteerism and partner organisations, and disaster relief through partnerships with recognised disaster relief organisations that are committed to helping those who are most in need.

The Capitec Foundation

The Capitec Foundation is an independent non-profit organisation, established in 2015, with the aim of improving performance in mathematics in an impactful and sustainable manner. It does this by focusing on mathematics tutoring, mathematics teacher development and school management development.

The Foundation aims to provide young South Africans with a brighter future by upskilling them with the necessary numeracy and financial life skills. This enables them to get access to tertiary studies and employment to bring change to their respective communities and the country.

Maths tutor programme

The programme is aimed at assisting high school learners with maths tutoring using university teaching students as tutors.

The Capitec Foundation piloted a future-fit maths tutor programme that incorporates a blended learning approach. The programme is aimed at grade 8 to 12 learners and is currently being piloted at Palmridge Ext 6 Secondary School in Katlehong. The programme is an adaptation of the current maths tutor programme, which has been running since 2018 in the Western Cape.

Since the start of the maths tutor programme, more than 200 teaching students have been trained and most of them have gone on to become successful teachers. The Foundation believes in making a sustainable impact on the education system in South Africa.

The adapted model incorporates a learning management system that enables learners to access top-quality content. The pilot project benefitted 351 grade 8 learners and 6 tutors, while the current Western Cape programme reached 450 grade 10 and 11 learners.

The focus in the next financial year is to establish a scalable model for future expansion. The pilot will therefore be extended to more schools.

Teacher development programme

The teacher development programme is aimed at empowering in-service mathematics teachers with skills to teach better and to make a sustainable difference in the schools where we are involved. This year, more than 275 teachers in Gauteng and KwaZulu-Natal were trained.

School management development programmes

The first programme is a collaboration between the Capitec Foundation, the University of Cape Town Graduate School of Business and the Principals Academy. It aims to upskill individuals in leadership roles at schools. This year, 23 school principals in the Western Cape participated. The second programme is in KwaZulu-Natal in partnership with Partners for Possibilities. 10 principals in the Umlazi district are participating. This programme offers a co-learning partnership between school principals and business leaders, enabling social cohesion and empowering principals to become change leaders in their schools and communities. A further benefit is the cross-sectoral reciprocal partnerships that are created between business, government and the social sector.

Sponsorships

Incubator support programme in partnership with the Nelson Mandela University Govan Mbeki Maths Development Centre

The centre partnered with the Capitec Foundation to implement a series of innovative mathematics and physical sciences development and support initiatives for secondary school teachers and learners in the Gqeberha and Mthatha districts of the Eastern Cape. This year, the programme supported 214 grade 11 and 12 learners.

Capitec volunteers

Through the employee volunteer programme, we encourage our employees to use their time, skills and resources to give back to communities where we operate. Each employee is entitled to 3 days per year for volunteering. Capitec supports initiatives driven by employees by matching funds raised. Capitec supports employees in their endeavour of making a difference in their communities.

During the 2022 financial year, 1 521 employees used volunteer days in various ways. Our employees raised over R1 million.

Donations

We are supporting 50 organisations across South Africa as part of a 3-year commitment. This year's contribution was R3 million. Capitec made further donations towards a number of initiatives in our communities such as the Ikusasa Student Financial Aid Programme, a programme that was established to sustainably cater for higher education needs, particularly the 'missing middle' students.

Disaster relief

We are passionate about our country and its future. We have therefore made provision for disaster relief and support if a province or the national government has declared a disaster and where our clients and communities are widely affected. Our approach to national disaster relief is to support existing relief efforts through recognised disaster relief organisations. By going this route, we are able to help place a focus on and further amplify these efforts.

South Africa experienced unprecedented unrest, which led to looting of shops and damage to property. This left communities in KwaZulu-Natal and Gauteng stranded as a result of a shortage of basic food supplies. Capitec's CSI department acted swiftly by applying a 2-pronged approach: firstly, we provided our employees in Gauteng and KwaZulu-Natal with food parcels; and secondly, we partnered with various non-governmental organisations (NGO) to provide support to community members and local charities that were in desperate need of help. A total of 4 900 food parcels were distributed in Gauteng and KwaZulu-Natal.

Our employees volunteered in various ways, such as the clean-up campaign, visiting NGOs, food packing and virtual volunteering. Through our partnership with Meals on Wheels, we prepared and distributed more than 30 000 meals across various Meals on Wheels kitchens.

Consumer financial education

Our mission is to provide an ecosystem of consumer education programmes that enable Capitec employees, clients and South African consumers to become empowered and knowledgeable to make informed decisions when choosing or using financial products and services, and to improve their personal financial management. We aim to integrate the digitally led ecosystem into the Capitec client experience through leveraging our client engagement and data platforms.

Live Better Academy

Our open and free online financial education platform now offers 5 courses, with the launch of an investing course in February 2022. A total of 133 693 individuals registered on the platform during the year and 18 764 users completed 1 or more of the 5 courses on offer.

A key objective in the past year was to motivate users to put their acquired knowledge into action. We hosted a 7-month MoneyUp Challenge on the Live Better Academy platform, which linked to a competition. Users participated in 1 of 3 challenges: budgeting, saving and debt repayment. It required them to complete the relevant course on the platform, set their own goals for the duration of the challenge and meet monthly milestones. Over 9 000 users set their challenge goals and participated at different levels during the period.

We received feedback from users:

> "I love how the platform made it simple for me to understand how to take charge of my money. Finances can be difficult to understand but the MoneyUp Challenge felt like the easiest homework. I am happy that I am finally doing finances right. I stuck to my budget even though it was challenging and I'm glad I did."
>
> "It's my wish to have all people take these courses. It's a life-changing experience. Since I have been learning on this platform, I have started to use money wisely and increase my investments. It is in its own a Live Better experience."
>
> "This is the most wonderful course I have ever completed. Thank you so very much to Capitec for creating it."

Contributing to our society and communities continued

We concluded an independent evaluation of the Live Better Academy to assess its efficacy as a financial education programme. It established that the Live Better Academy is an effective learning platform that delivers financial education in a simplified manner, resulting in improved knowledge, attitude and behaviour among users.

Our focus in the next year will be to increase engagement through relevant communication, improved accessibility and platform enhancements.

Livin' it Up

Our mobile game, which aims to educate users about the importance of consistent savings behaviour to achieve financial goals, continued to receive high praise from players for its educational message. We acquired 60 390 new users. Our approach was to promote the game through quarterly campaigns on social media, for which we produced a series of short, animated videos with punchy educational messages.

Some user feedback included:

> I've banked with Capitec all my life and never has any bank created such an amazing financial game… Just play Livin' it Up and see how informative it is. I take my hat off to Capitec."
>
> "Unlocking big dreams and achieved Lerato's goal. We are Livin' it Up and learning great money tips."
>
> "Interesting and educational I must say."
>
> "I loved and enjoyed playing these games as I also gained some savings lessons.

Budget Champs

We were able to resume volunteerism at schools through our Budget Champs card game when the 2022 school year started. We reached 15 schools and 2 068 learners with 71 Capitec volunteers. The programme uses employee volunteers to deliver a powerful savings lesson to school learners. During these lessons, volunteers facilitate game play sessions of our Budget Champs card game. We designed Budget Champs to teach essential budgeting and savings concepts in an interactive manner in small groups of up to 5 learners. The game aligns to the grade 7 economic and management sciences (EMS) curriculum.

Teachers and learners of beneficiary schools receive game copies and companion guides to continue the learning experience in the classroom and home environment.

We received uplifting feedback from teachers, learners and employee volunteers who benefitted from the programme:

> I had a very good experience and am very happy about this game as I know how great the impact of a budget and saving can have on your personal life. The session was excellent." EMS teacher at Ronwe Primary School, Paarl
>
> "Many many thanks Capitec for presenting Budget Champs at our school. The learners and EMS teachers enjoyed it very much." Teacher, Franschhoek High School
>
> "The game is extremely effective in reinforcing EMS concepts for learners. I've learned the importance of budgeting. Had a fun time learning through the game. I wish all subjects could be as captivating as this budgeting game was." Teacher, Intshayelelo Primary School
>
> Thank you for this initiative - I enjoyed facilitating the game so much that I explained it to my kids as well." Business manager operations
>
> "This was a great experience! Thank you. I really appreciated the opportunity to give back time and my presence at schools." Support specialist: device monitoring
>
> "The experience was awesome Thank you so much for the opportunity to give back. Hopefully there will be more opportunities like this in the near future. I am definitely staying involved. My son also enjoyed the game and didn't want to stop playing." Collections agent

We also concluded an independent evaluation of Budget Champs based on an employee pilot. The evaluation found that Budget Champs is designed to meet most beneficiary needs and preferences. Furthermore, it found that the game is highly relevant because it is uniquely positioned as a tool that enables practical application of what is learnt at school, it is aligned with concepts being taught at school and it is well structured and designed.

Other initiatives delivered and new programmes in development

GRAD and GRADnext magazines

We sponsored the printing and distribution of 100 000 copies of the GRAD magazine to 28 universities, and 9 school programmes. The magazine targets first-generation, first-year students and contains articles to help them navigate their first year at university, covering topics such as money management, time management, nutrition, study methods and goal setting. GRAD is an initiative by Ruda Landman's Readers Unite and Study Trust in partnership with Van Schaik publishers.

We also sponsored the printing and distribution of 50 000 copies of GRADnext, a spinoff to GRAD. The magazine targets graduates and career starters and contains topics that help them transition to the next phase of their life.

EMS financial literacy video lessons

We sponsored a project to translate the grade 7 to 9 financial literacy lessons of the EMS curriculum into captivating video lessons. Thuma Mina Teaching, a non-profit company and public benefit organisation, are producing the video lessons with the guidance and support of the Western Cape Education Department, which also gave support for the implementation of the lessons in 4 test schools in the Western Cape during 2022. The impact of the lessons on learner engagement and learning outcomes will be independently evaluated. The project is ongoing.

Bank safety

With consumers increasingly adopting digital banking, criminals are using more sophisticated tactics to defraud consumers. According to a report by the South African Banking Risk Information Centre (SABRIC), digital banking fraud increased by 33% in 2020. We increased fraud awareness communication across all channels. Initiatives included fraud awareness campaigns on radio, social media and television during Money Smart Week, ongoing communication to clients and consumers on direct and social media channels and sponsoring Banking Association South Africa's (BASA) festive season bank safety campaign on commercial radio stations.

Employee volunteering for financial skills

We embarked on a new initiative whereby the consumer education team recruits employees nationally to volunteer at StarSaver and Budget Champs initiatives and to facilitate financial skills lessons at community and employer events. Collectively, 261 employees have registered to facilitate financial skills lessons. We will formalise a programme to support various initiatives in the next financial year.

WhatsApp trial

We will trial a new financial education programme using WhatsApp as the channel of delivery in the second quarter of 2022. The automated solution aims to deliver financial education in a conversational manner on a channel that is accessible and widely used by South African consumers.

Our contribution to transformation

We promote human rights

Our human rights statement, approved by the SESCO, confirms our approach to respecting and protecting human rights.

We recognise that our business contributes to economic welfare and therefore plays a role in human progress. Sound human rights practices deliver commercial rewards for all stakeholders over the long term. Companies that apply human rights policies are better prepared to prevent human rights abuses and effectively deal with transgressions.

Below is an extract from Capitec's human rights statement:
- Capitec commits itself to uphold the equality and dignity of all people it engages with and to recognise their basic human rights
- The people that the group engages with include all stakeholders, ranging from employees to shareholders and groups with vested interests such as societies
- Capitec will apply these principles without deviation and correct any contrary behaviour where it is within our power and ability to do so
- Where human rights abuse exists, and it is not within the ability of Capitec to correct the behaviour, the group will disassociate itself from practitioners who commit these abuses and apply the necessary influence to change behaviour.

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

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

Our most recent verification confirmed the bank's B-BBEE status as a level 4 contributor.

Embedding diversity and inclusion

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

Social and enterprise development

We invested R50.17 million towards socio-economic development and consumer education.

Empowerment financing

We fulfil our empowerment financing objectives by providing funding towards affordable housing and black small and medium enterprises.

We have invested in excess of R132.5 million in enterprise and supplier development through our Imvelo joint venture with Empowerment Capital.

Access to financial services

We provide access to affordable financial products and services that are easily accessible through our branch network, call centre and digital channels. We continue to see an increase in clients using remote banking services.

Summary of Capitec Bank's B-BBEE scorecard

	Calendar year	
Element	**2021**	**2020***
Ownership	21.63	14.51
Management control	10.58	9.01
Skills development	14.65	14.84
Preferential procurement	14.58	12.53
Socio-economic development and consumer education	5.37	5.00
Enterprise and supplier development	12.00	12.00
Empowerment financing	11.00	12.00
Access to financial services	11.79	11.79
Total points	101.60	91.68

* *The score for the 2020 calendar year has been updated to the final score after verification.*

The B-BBEE scores for the 2021 calendar year are currently in the verification process.

Addressing climate change

Capitec understands that climate-related and environmental factors are growing in prominence as regulators, countries, businesses and society join hands to address climate change. Environmental risks associated with "climate action failure", "extreme weather" and "biodiversity loss" rank as the top 3 most severe risks for the next 10 years according to the World Economic Forum in their 2022 Global Risks Report.

The board takes ultimate responsibility for the management of the environmental impacts. The SESCO is mandated by SESCO charter to *'monitor the company's activities relating to social and economic development, good corporate citizenship and the environment so as to promote the collective well-being of society, thereby facilitating the sustainable growth of the Capitec group'.*

In the current financial year, the group's environmental and climate risk framework was matured with respect to the following:

- Climate and environmental risk will henceforth be driven as part of a more comprehensive ESG discipline within the business with the appropriate level of focus and oversight from the SESCO
- An ESG strategy approach was developed on how the discipline will be matured within the business
- Improved climate risk public disclosure initiative is in motion in the form of a stand-alone report that follows a similar structure to that of the Taskforce for Climate related financial disclosure framework.

Our stand-alone climate report can be accessed by following the link to the Capitec website: **www.capitecbank.co.za**

The SESCO monitors the following activities and environmental matters:

		2022	2021
Electricity consumed ('000)	We rely on Eskom for all electricity requirements	**34 840MWh**	34 503MWh
Recycled paper	Employees at head and regional offices are required to recycle paper in special paper bins and are encouraged to use the special bins provided for recyclable materials	**7 624kg**	5 881kg
Recycled tins		**205kg**	360kg
Recycled electronic equipment	Disposed of and recycled by accredited third parties	**12 558kg**	27 309kg

Addressing climate change continued

Carbon footprint monitoring

Carbon footprint (tCO_2e)

GHG Protocol scope	2022	2012 baseline
Scope 1: Direct emissions from:		
Fuel used in directly-owned or controlled equipment	116	1
Fuel used in directly-owned or controlled vehicles	16	83
Air-conditioning and refrigeration gas refills	42	62
Scope 2: Indirect emissions from purchased electricity		
Purchased electricity – Eskom*	37 627	22 971
Total Scope 1 and 2	37 801	23 117
Scope 3: Indirect emissions from:		
Business travel – rental vehicles	9	46
Business travel – commercial airlines	2	1 623
Business travel – employee-owned vehicles	1 387	2 042
Product distribution – cash-in-transit	223	838
Paper usage	163	402
Total Scope 1, 2 and 3	39 585	28 068

* *Electricity emission factor per kg CO_2e per unit was updated in the current year*

Intensity footprint (tCO_2e)

	2022		2012 baseline	
GHG Protocol scope	Per full-time employee	Per m² floor space	Per full-time employee	Per m² floor space
Scope 1 emissions	0.01	—	0.02	—
Scope 2 emissions	2.55	0.15	3.19	0.15
Total	2.56	0.15	3.21	0.15

Methodology

We use the following:

- GHG Protocol – Corporate Accounting and Reporting Standard (revised edition)
- Emission conversion factors as published by the UK Department for Environment, Food and Rural Affairs (DEFRA)
- An operational control approach
- The 2012 financial year as the base year – the 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2016.

Assumptions

- The calculation of our carbon footprint is limited to Capitec Bank. The footprint of all other group entities is considered immaterial
- Employee commute is excluded due to insufficient data
- Estimated electricity usage based on calculated averages was used for the baseline footprint. Consumption for 2021 was based on accurate records.

Some limited and immaterial instances required the use of averages due to certain electricity usage data not being available.

Target

- To reduce, or at least maintain, the GHG Protocol Scope 1 and 2 emissions per full-time employee.

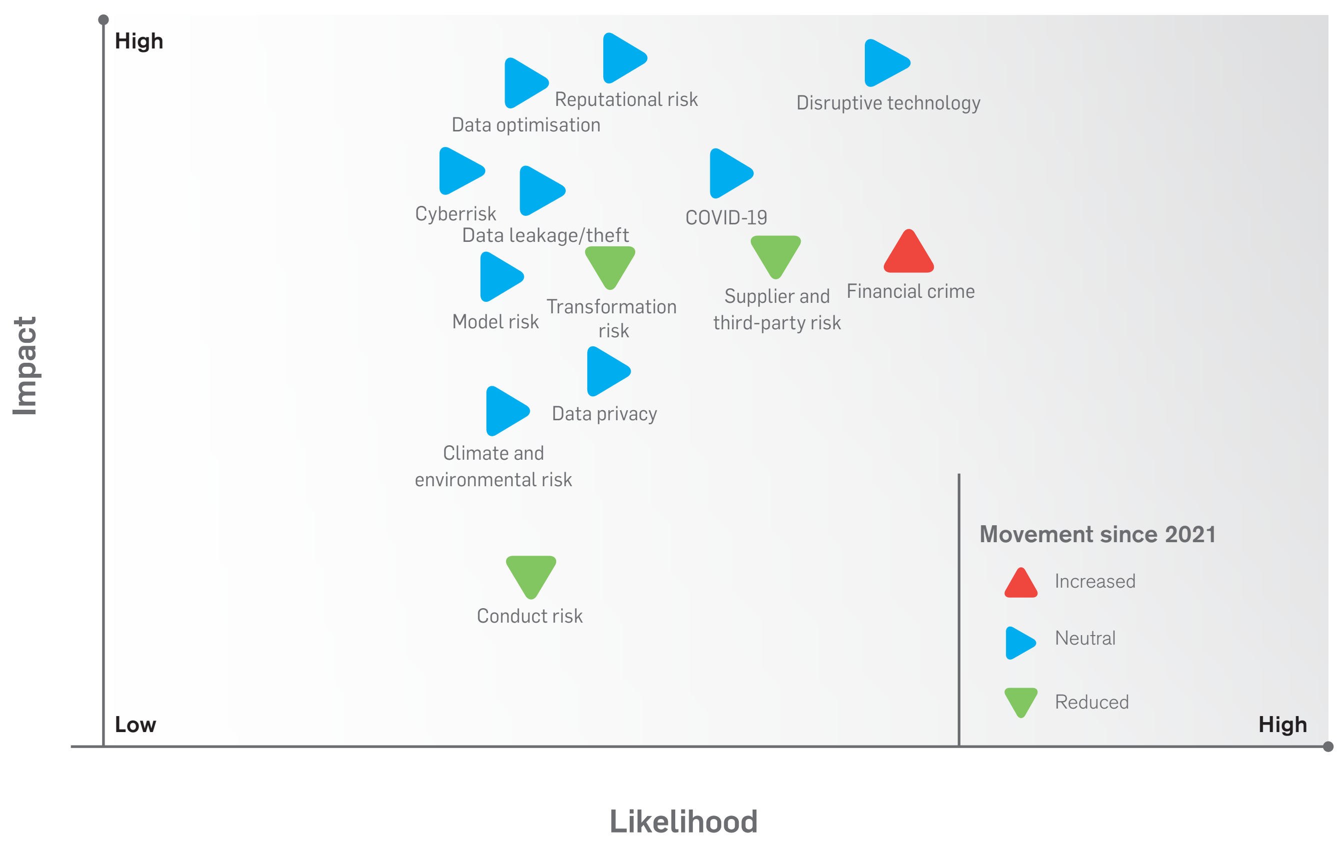
The carbon footprint monitoring is not subject to independent assurance.

Although there was a 41% increase in the overall footprint between the baseline and the current year emissions, there was a 20% (for Scope 1 and 2 emissions) reduction in the footprint measured according to the intensity footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.

Risk management report

Our aim is to ensure that we thoroughly understand the environment that we operate in to proactively assess risk, opportunity and respond effectively; influence stakeholders through engagement and procurement; initiate risk management and strategic interventions; and mature the organisational risk culture.

Risk view for the year



Logic

Risk view derived from risk universe and operational key risks/strategic risks:

- *Reduced: if both elements (impact and likelihood) have declined.*
- *Neutral: if elements (impact and likelihood) remain unchanged or the change applies to only 1 element, either a decline or increase, or the change applies to both elements up and down.*
- *Increased: if both elements have increased.*

Risk management report continued

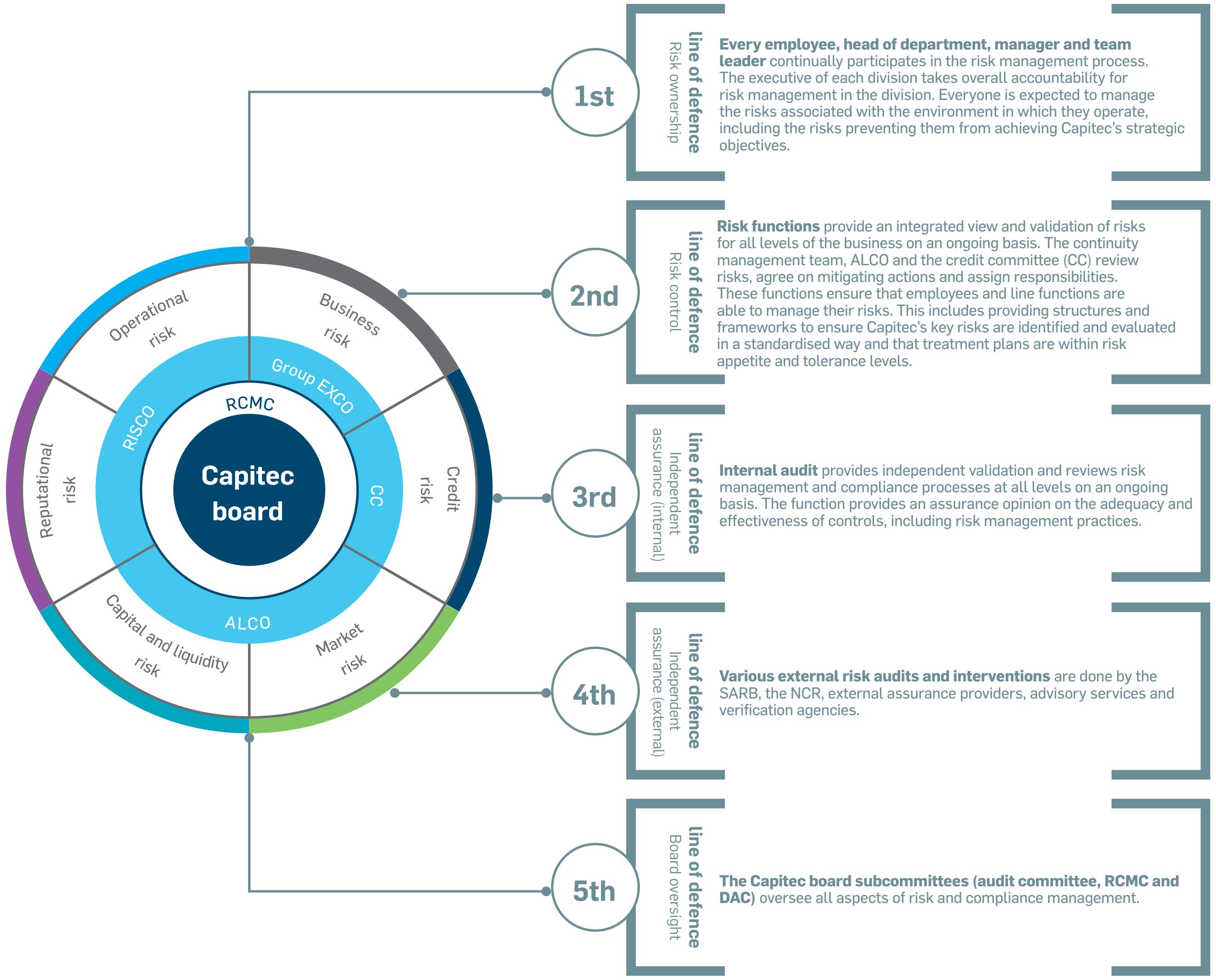
Enterprise risk management framework

Our enterprise risk management (ERM) policy provides the governance structure, risk appetite and approach for our risk management discipline and guides us to ingrain a prudent risk culture. It defines our risk management universe, structure, policies and processes. No material changes were made to the ERM policy this year and the focus remained on improving the risk maturity and clearly delineating the lines of defence in our risk management framework.

The ERM function is positioned to create better visibility about potential risks and provide clarity on how the risks are mitigated. This requires an integrated approach in all business areas to enable an effective risk management process from identification through to mitigation.

Our risk awareness campaign for the year was supported by a video-recorded message from the CEO and executive: risk management that set the 'tone at the top' for risk management. This video message emphasised the renewed drive to mature risk ownership in the first line of defence and explained the rationale behind the appointment of risk business partners across the business.

Collaboration with internal audit helps to identify new and emerging risks and supports our combined assurance approach. Our crisis management plans were put to the test during the COVID-19 pandemic and the July 2021 civil unrest in KwaZulu-Natal and Gauteng and proved to be effective and agile. We will continue to mature our business continuity plans and further improve our resilience to adverse risk events.



Governance of risk

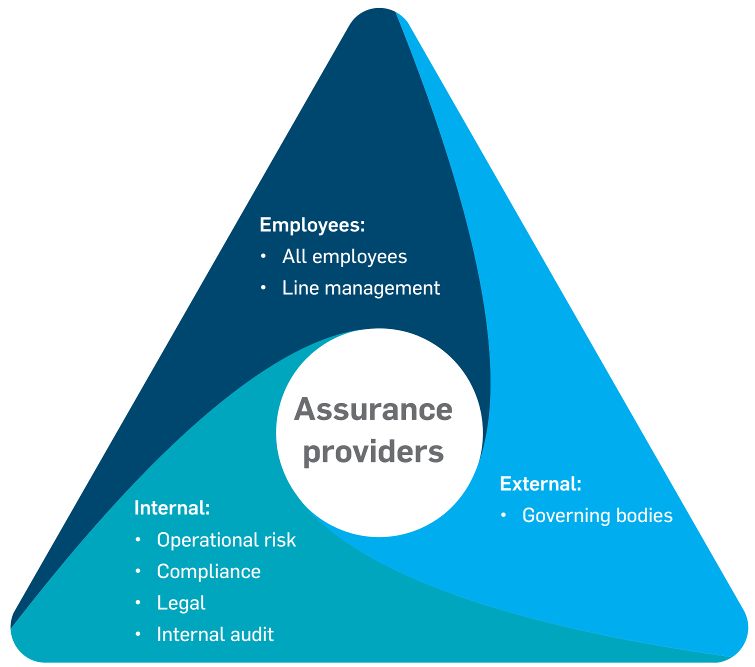
We have an extensive, multi-layered structure to govern risk, however, our board is ultimately responsible for risk management. This includes ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board monitors the implementation of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

Our risk universe consists of 6 risk categories that are managed by the EXCO, the RCMC, the RISCO, the RCC, the BCC, the ALCO and the Data Steerco. These committees report to the RCMC, which is mandated by the board to oversee risk management.

The RCMC, which is comprises of executive, non-executive and independent non-executive directors, oversees risk management according to a board-approved charter. The committee meets quarterly and includes senior management attendees with representation from risk, credit, compliance, treasury and internal audit. This ensures that a consistent risk appetite is shared by management and the board. We believe the composition of the RCMC is important to ensure that proper governance is maintained. Healthy risk discussions are encouraged from a forward-looking perspective while taking past risk events into account.

Combined assurance

brings together the business' lines of assurance to most effectively and efficiently identify, manage and monitor key business risk.



Combined assurance supports risk management

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

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

Risk management report continued

Our risk management process

We have an iterative 5-step process to manage risk.

01 Risk identification

Risks are identified by the 1st line of defence. They carry the primary responsibility for identifying and managing risk appropriately as primary risk owners. Identified risks are formally documented in risk registers and have designated risk owners.

The risk management function provides support by facilitating risk self-assessment workshops, where appropriate.

02 Risk evaluation

The board-approved risk matrix allows for consistency in the evaluation of risk. Risks are evaluated in terms of 2 criteria: likelihood and impact when materialising. We consider the inherent and residual dimensions of risk.

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

03 Risk treatment

Risks are accepted, transferred, mitigated or avoided, based on the outcome of risk evaluation. If mitigated, then mitigation plans are tracked against predetermined timelines and monitored accordingly. The necessary escalation processes are in place.

04 Risk monitoring

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

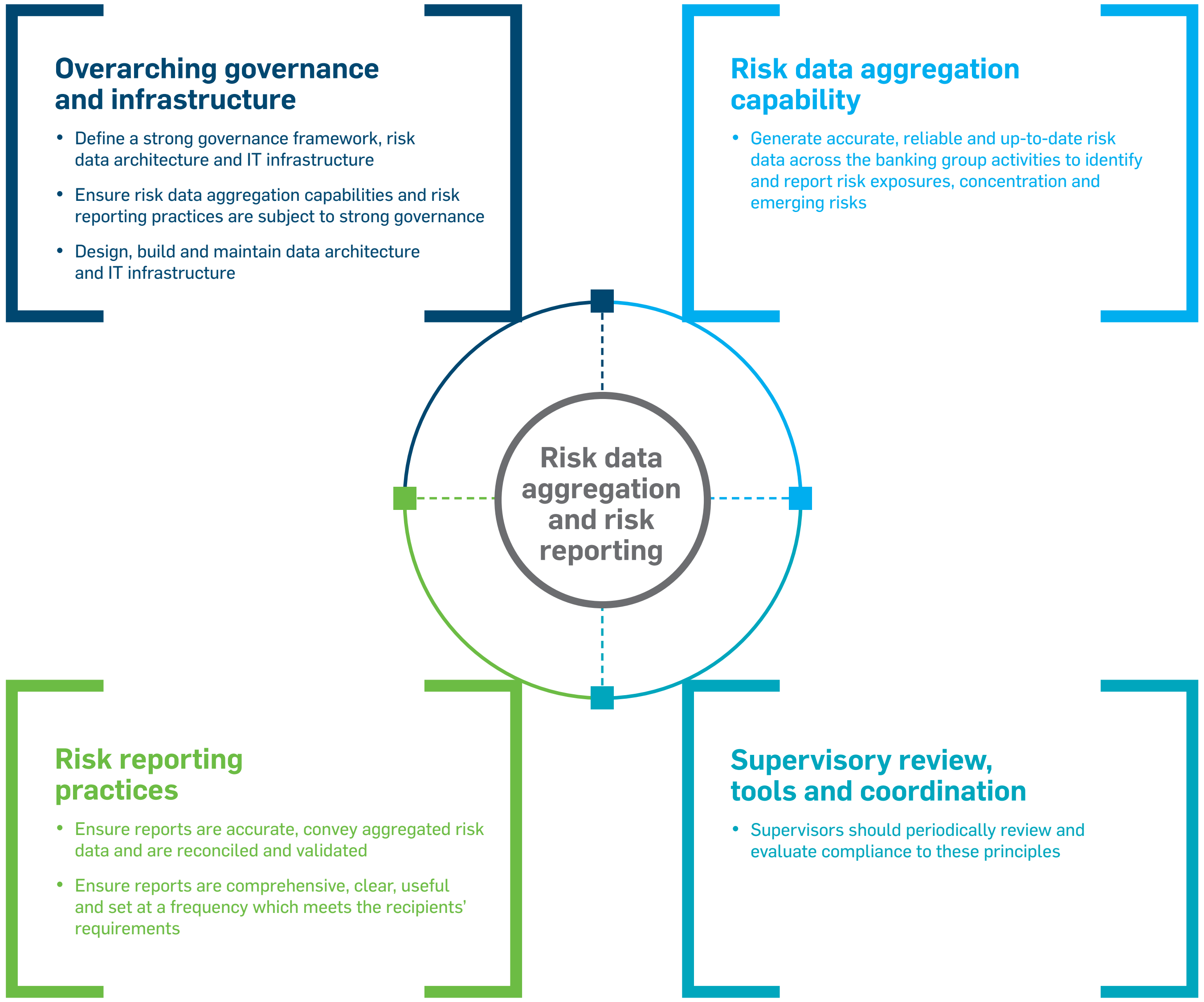
05 Risk reporting

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

Embedded RDARR principles in our data management and risk management practices

We believe that RDARR is more than a compliance requirement and that mature RDARR capabilities add value to our understanding and management of risk. At present, our risk and data management practices are well aligned and our data strategy will ensure we continue to improve. With the acquisition of Mercantile, data governance and management practices have been aligned to ensure consistency across all divisions.

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



Our risk appetite and tolerance

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

As expected from a banking group, our highest exposure is in the credit risk environment, where we define the risk appetite level through our pricing model and pursue a targeted ROE on all credit products.

The pricing model combines the revenue and operational costs for a specific product and derives the total credit losses that can be absorbed over the term of the product to achieve our targeted ROE.

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

Risk management report continued

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

Stress testing, contingency planning and business continuity

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

A crisis management team is responsible for all aspects of business continuity in a crisis event as was evidenced during the July 2021 civil unrest. The board-approved business continuity framework and methodology are based on International Organisation for Standardisation (ISO) 22301. The framework is linked to the disaster recovery plan.

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

During the 2022 financial year, the COVID-19 pandemic continued to put our business continuity processes to the test and the business proved its resilience throughout.

The risks we manage

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

Credit risk

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

Retail bank

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

The RCMC, which comprises non-executive and executive members, oversees credit risk through the RCC (comprising executive members). The RCC sets credit strategy and approves credit policy. It monitors impairments and changes in the operating environment and ensures that credit risk remains within appetite. The TREC (comprising executive members) reports on the credit risk monitoring decisions for each stage in the credit life cycle. Financial governance is applied through pricing and impairment models, regulatory reporting and the internal capital adequacy assessment process (ICAAP). The MTSC provides a forum for technical discussion, coordination and direction in setting modelling standards, methodologies and techniques. Integrated risk management is applied across all stages of the credit life cycle.

Acceptance risk

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

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

Indicates information that was audited.

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

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

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

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

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

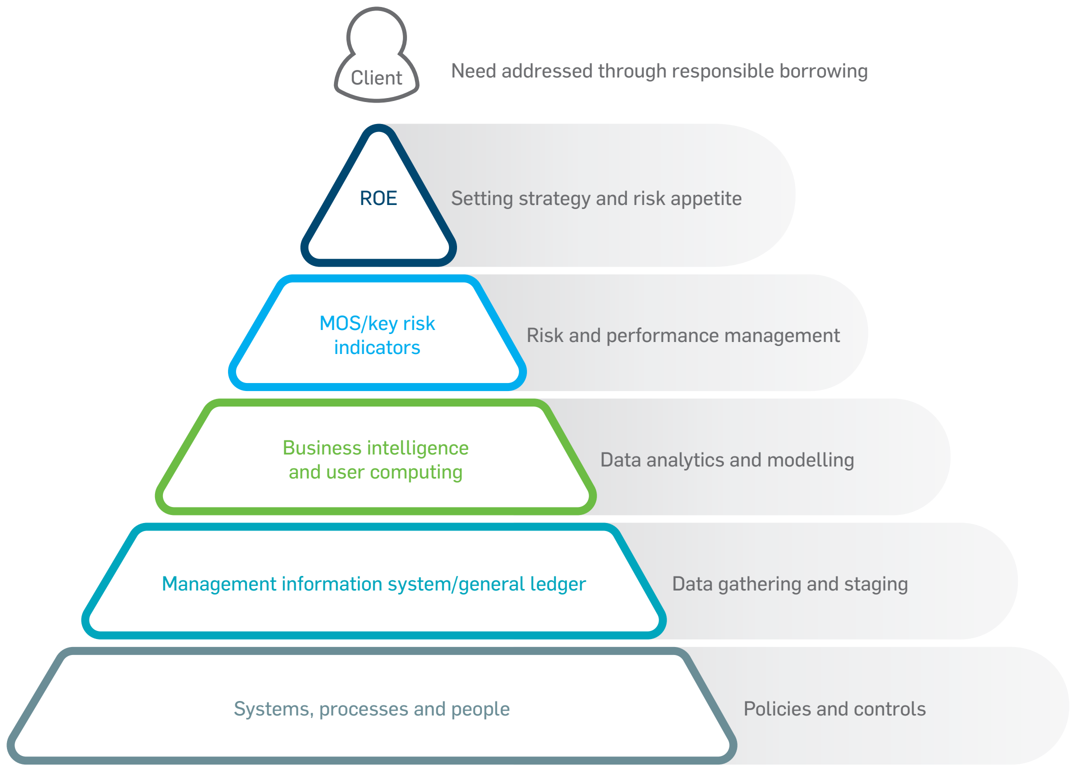
Control risk

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

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

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

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



Indicates information that was audited.

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

Credit loss recovery (CLR)

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

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

Reward risk

Reward is about profit optimisation. As a bank, we target a certain reward for a given risk (our ROE target).

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

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

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

Credit risk reporting

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

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

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

Credit risk training

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

Business bank

Business bank offers various credit products with the core focus on small- to medium-sized businesses and private banking to entrepreneurs.

Credit risk management is executed in accordance with the business credit framework as approved by the RCMC. Credit risk management decisions are made with the end-to-end client credit life cycle in mind (accept, control, recover and reward) by considering, mitigating and managing the credit risk linked to client behaviour, affordability, source of income and security and other legal documentation. The Capitec business credit committee (CBCC) has been approved by the RCMC to execute on their credit risk mandate and report back.

We adopt a risk-based pricing approach to credit granting, within a specifically defined and structured approval process. Credit granting is managed via a mandated approval process automated on the bank's workflow system. Credit approval mandates are delegated to credit managers within predetermined rules and parameters as approved by the RCMC.

Credit approvals are mostly intuitive with scoring only applied for unsecured products up to R250 000. The aim is to score for larger deals and to include secured products over time in pursuit of our client-centric optimisation strategy. Approvals are continuously evaluated and monitored by the credit department.

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

Dependent on the risk profile of the client across all portfolios or market segments, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are accepted to mitigate credit-related risks.

Indicates information that was audited.

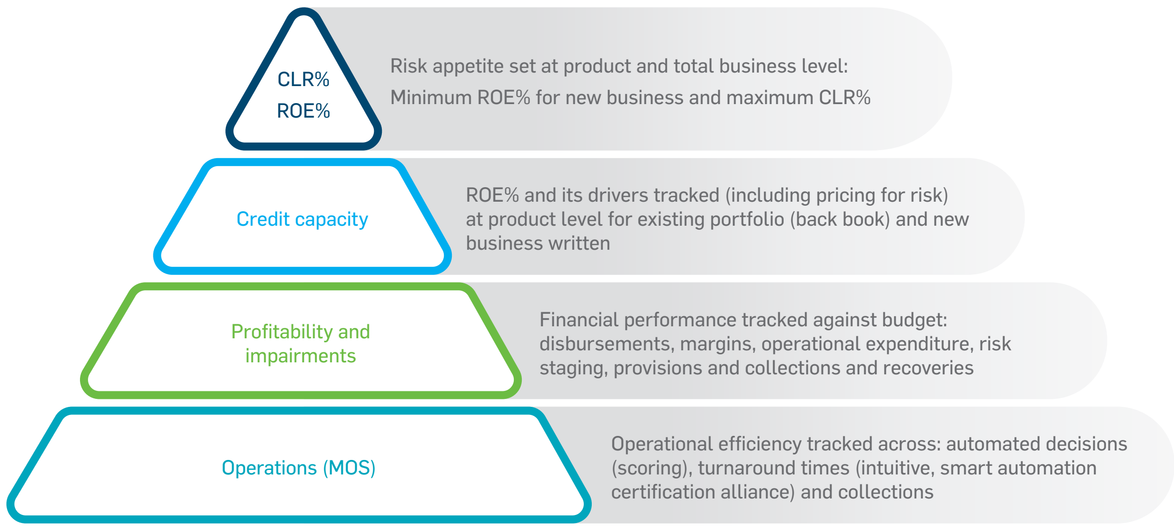
We prepare a monthly portfolio analysis which is reported monthly to the CBCC and quarterly to the RCMC. It analyses the performance and composition of the portfolio including client, geographic, segment and product concentration. Risk parameters are set at product level with a balance weighted average calculated for the consolidated view in respect of credit capacity. Prudential limits are considered and set at various levels within Capitec's business credit area. Appetite metrics are viewed as the lagging indicators of risk, and metrics produced for the MOS as leading indicators.

ROE targets are applied on both a product and a client level.

The CC conducts weekly reviews of all new and renewal proposals for lending according to the delegated mandates. It covers topics including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the advances portfolio composition and performance. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at the appropriate CC meetings, and action is taken if appropriate. Provisions are calculated across the risk stages 1 to 3 according to the provisioning model considering the client's behaviour and underlying security held.

Counterparty credit risk

The bank has limited counterparty credit risk, limited to hedges entered into to mitigate interest rate and currency risks as a result of wholesale funding activities as well as operational and capital expenditures denominated in foreign currency.



Investment credit risk

We have a low-risk appetite regarding the investment of surplus cash. Surplus cash is invested in fixed income instruments with the SARB, high-quality banks and money market unit trusts where the underlying assets are the South African sovereign and high-quality banks. These counterparties are all explicitly approved by the RCMC. These instruments are all held to maturity and not marked-to-market.

Other credit risk

Suppliers

The supplier risk committee assesses and approves prepayment and inventory exposure limits to suppliers. The supplier risk framework is also in the process of being expanded and enhanced to include more comprehensive risk measures including cyberrisk, information security and reputational risks. This limits operational and financial risks and aims to improve data privacy controls and business resilience through services rendered by third parties.

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

Indicates information that was audited.

Risk management report continued

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

The following table summarises the group's credit risk exposures, both pre- and post CCF and CRM, together with the resulting credit RWAs and RWA density. Resale agreements with banks and corporate entities are included in the banks and corporate disclosure lines, respectively, in the table below.

	Exposures pre-CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset classes R'000	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
2022						
Sovereigns and their central banks	63 048 447	—	63 048 447	—	—	—
Banks[1]	13 736 024	216	8 574 932	43	1 945 115	23
Corporates[1]	3 438 547	1 178 138	2 821 324	251 891	2 816 072	92
Regulatory retail portfolios	61 307 208	12 231 373	61 307 208	35 091	46 767 319	76
Secured by residential property	3 221 333	109 762	3 213 436	93 984	1 295 261	39
Secured by commercial real estate	3 049 019	140 839	3 049 019	109 481	3 158 500	100
Past-due loans[2]	4 868 177	74	4 868 177	5	3 598 820	74
Total	152 668 755	13 660 402	146 882 543	490 495	59 581 087	40
2021						
Sovereigns and their central banks	35 061 268	–	35 061 268	–	–	–
Banks[1]	29 554 410	247	11 025 997	49	2 312 904	21
Corporates[1]	5 830 723	869 083	3 124 773	114 721	3 217 576	99
Regulatory retail portfolios	53 298 542	5 881 364	53 268 714	101 252	40 386 236	76
Secured by residential property	2 695 018	127 577	2 682 959	127 577	1 047 350	37
Secured by commercial real estate	2 512 611	185 363	2 512 611	123 721	2 636 332	100
Past-due loans[2]	3 300 024	124	3 307 133	3	2 154 301	65
Total	132 252 596	7 063 758	110 983 455	467 323	51 754 699	46

[1] Resale agreements with banks and corporate entities are included.
[2] Past-due loans include retail loans which are in arrears by 1 day or longer, and business loans which are in arrears by more than 90 days.

Rating grades and related risk weightings

Long-term credit assessment	Aaa to Aa3 %	A1 to A3 %	Baa1 to Baa3 %	Ba1 to B3 %	Below B3 %	Unrated %
Sovereigns	—	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Banks: short-term claims	20	20	20	50	150	20

Short-term credit assessment	P-1 %	P-2 %	P-3 %	Other %
Banks and corporate entities	20	50	100	150

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on people and systems to operate effectively and efficiently.

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

Operational risk consists of the following categories:

- Fraud risk
- IT risk
- Information risk
- Compliance and legal risk
- Conduct risk
- Model risk
- Supplier and third-party risk
- Environmental risk.

The operational risk function operates across Retail bank, Business bank and shared services. We follow the BCBS Principles for the Sound Management of Operational Risk. During the upcoming year, we are further aligning to the newly published BCBS Principles for operational resilience as we acknowledge that operational resilience speaks to the ability to deliver critical operations during times of disruption. This ability enables a bank to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events to minimise their impact on the delivery of critical operations.

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

Good risk management practices suggest that we should stand back from our daily risk registers at least annually. This helps us to reconsider known issues and revisit the entire risk landscape and its potential impact on our operations.

Read more about our business context and the challenges during the financial year in the Report from the Chief Financial Officer. This is the backdrop against which we manage operational risk.

Our systems and processes support a centralised view of all risks. This view is enriched with information from our risk self-assessment workshops. In combination with near-miss and incident analysis, we create a holistic view of risk.

A comprehensive insurance programme covers operational risk losses such as fraud, theft, professional liability claims and damage to physical assets. The opportunity cost of lost revenue is not covered and will be reviewed in due course.

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

Fraud risk

Fraud risk includes the risk of financial crime and money laundering. We use technology to mitigate and prevent fraud. Our fraud policy outlines what constitutes fraud and corruption and details the procedures to follow where these activities are suspected or discovered. We cooperate with government and industry role players to ensure the successful apprehension and conviction of perpetrators of financial crime, including bribery and corruption. We also continue to deploy system improvements and fraud awareness communications to better protect unsuspecting clients from falling victim to fraud.

Capitec is aware that clients are increasingly confronted by more sophisticated fraud perpetrators such as phishing, vishing and smishing. We implemented the following initiatives to ensure that our clients are better educated and protected:

- Introduced 5-digit pin numbers
- Added a 'selfie' authentication process as part of the Apple and Huawei activation of the Capitec banking app
- Suspended unused internet banking
- Reduced cash withdrawal limits
- Increased client fraud prevention education via SMS, app, email, social media, in-branch TV screens and radio station broadcasts.

Risk management report continued

IT risk

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

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

Our strategy demands that we focus on clients. Therefore, our IT strategy is created, approved, reviewed and implemented to align with the business strategy. We work according to a 6-month planning process to align initiatives in each IT function with business objectives that can be tracked weekly and monthly to achieve set targets.

The IT governance framework defines the IT organisational structure and the policies and procedures to facilitate good governance and compliance practices in IT. Weekly EXCO meetings and formal IT prioritisation meetings provide platforms to discuss strategic IT matters and initiatives and align priorities.

These meetings also focus on IT risks and potential issues. They ensure that situations that could threaten the availability of systems, or the confidentiality and integrity of information, are identified and discussed at a senior management level. Important issues are handled with the appropriate level of urgency and focus. Operational risk management and IT security and risk collaborate closely to ensure alignment and effective risk management.

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

IT security governance and risk management

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

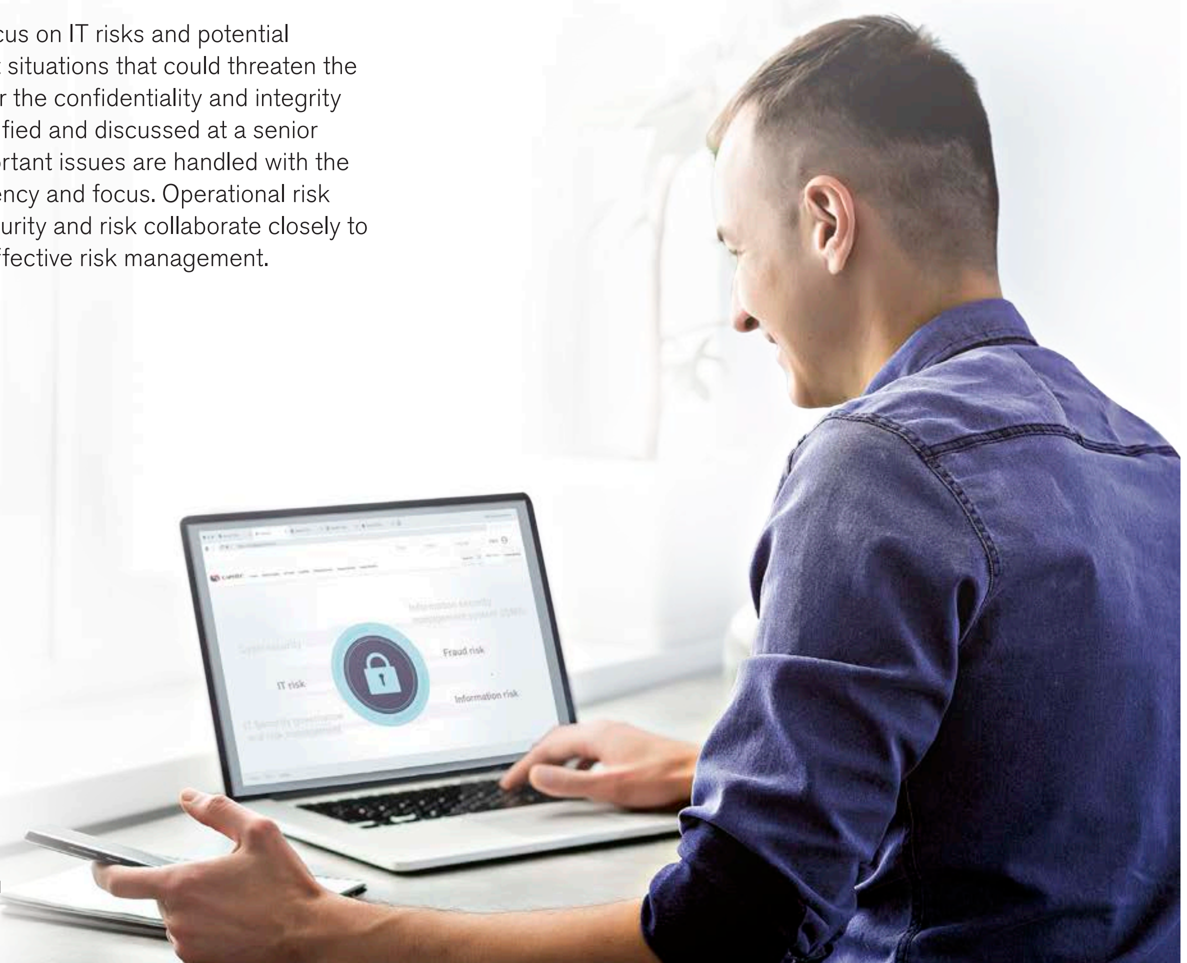
Our annual security awareness campaign strives to improve the maturity and understanding of our employees with regard to a variety of practical and business-relevant security topics.

IT security and cyberrisks are monitored and reported through the operational risk governance structures in Capitec.

Information security management system (ISMS)

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

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



Cybersecurity

We have a dedicated team focused solely on protection, detection and the response to cybersecurity. We test our own IT controls for weaknesses to improve our security and response times. We are involved in industry initiatives such as the SABRIC, to establish and embed well-coordinated security response mechanisms in the event of major security threats to the banking industry or individual banks.

Information risk

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

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

We value the privacy of our clients, employees and other stakeholders. We process personal data responsibly, securely, lawfully and in accordance with our duty of confidentiality towards clients. We take a collaborative approach to data privacy and have established a close working relationship between business development, operational areas, risk management and the data privacy management team. We continuously monitor local and international developments in data protection laws and standards and incorporate relevant practices where appropriate.

Compliance and legal risk

We recognise the interdependency of the banking industry and the reliance of the economy and citizens on banks. This demands that all participants comply with legislation. A compliance risk is the risk of legal or regulatory sanctions, material financial loss or reputational damage that the bank may suffer as a result of failing to comply with legislative requirements which are applicable to the bank's activities.

The group has a dedicated compliance function, as prescribed by the Banks Act, to manage compliance risk. The role of the compliance function is to identify, assess and monitor the statutory and regulatory risks faced by the group, and to advise and report to senior management and the board on these risks. To provide for the appropriate independence of the compliance function from the business activities, the head of compliance reports to the audit committee, compliance forum, the RCMC, the RISCO, the SESCO or directly to the board. This is to ensure that the compliance function discharges its responsibilities objectively without fear of repercussions or interference, and free from any bias, undue influence or conflict of interest.

Our compliance policy, which forms part of the compliance framework, and our compliance manual and compliance programme, define the ways in which the board and CEO are assisted to ensure that we operate with integrity, comply with legal and regulatory requirements, and work according to ethical standards. The compliance policy is reviewed and approved annually by the audit committee to assess the extent to which the group is effectively managing its regulatory risks. The audit committee annually reviews and approves our compliance plan, against which it monitors the progress in training, monitoring and review of compliance with the regulatory requirements of the group.

Our compliance universe consists of applicable laws and is reviewed and approved annually by the audit committee. This is to ensure that it remains relevant and current as we grow and launch new products and services. The regulatory universe contains all the compliance objectives for the group in relation to each individual legislative instrument. The compliance function helps to foster a culture that creates awareness and recognises the value of compliance risk identification, assessment, management, monitoring and reporting as part of the group's ongoing activities.

Compliance risk is managed within the group through the following key activities performed by the compliance function:

- Creating awareness on legislative developments by advising business units of the impact and responsibilities relating to legislative requirements
- Independent monitoring and reporting on the level of compliance with regulatory requirements
- Evaluating and assessing significant merging or consolidating functions and new or changing services, processes, operations and the controls coincidental with such development, implementation and/or expansion
- Contributing towards building and preserving the bank's reputation in the marketplace with the respective regulators, regulatory bodies and industry forums.

Notable regulators and statutory bodies that play a role in compliance requirements and direct our conduct are the:

- PA, NCR, JSE, Financial Intelligence Centre, Financial Sector Conduct Authority (FSCA), Information Regulator, various governmental departments and Ombud schemes.

Risk management report continued

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

A number of developments on regulatory reforms that were published during the period under review are currently being monitored by the group. The most notable developments related to the following:

- The health and safety of our employees, clients and stakeholders are of paramount importance to the bank. Under the Disaster Management Act, a national state of disaster was declared on 15 March 2020 as a result of the COVID-19 pandemic. In line with requirements with associated regulations and directives, several preventative health and safety protocols remain in force, to ensure a workplace that is safe for all employees and clients alike.
- The Mutual Evaluation Report of South Africa was published on 7 October 2021 and is a comprehensive review of the effectiveness of South Africa's measures and the level of compliance with the Financial Action Task Force recommendations. South Africa is currently a jurisdiction of monitoring concern and the regulators, together with the financial sector, will be required to rectify all inefficiencies identified. More stringent regulatory and supervisory action in addressing these deficiencies are expected and will be closely monitored. Compliance with anti-money laundering and countering the financing of terrorism laws remains a high priority for the bank.
- A number of directives were published by the PA which included temporary relief measures relating to the LCR, and restructured credit exposures due to the COVID-19 pandemic, including subsequent withdrawals. A directive was also published on Principles for Operational Resilience which provides the principles that the bank needs to apply to ensure it follows an operational-resilient approach to withstand operational risk-related events. A directive on the principles for the Sound Management of Operational Risk was also published. The purpose of the directive is to direct banks to comply with specified international best practices related to operational risk aligned to the updated BCBS Principles.
- The Banking Conduct Standard was published by the FSCA as Standard 3 of 2020 on 3 July 2020. The Banking Conduct Standard imposes conduct obligations on the bank in its capacity as a bank in respect of all financial products and services offered to retail clients. The Conduct Standard is aimed at ensuring banks treat financial clients fairly (TCF) by incorporating the requirement of delivery of the 6 TCF outcomes into a regulatory instrument as defined in the Financial Sector Regulation Act. To give effect to the standard, a thorough review was undertaken of the bank's products as well as the service design process, sales process in respect of disclosures and ensuring that information and disclosures are targeted and appropriate to the needs and reasonably assumed level of understanding of our clients. Governance and oversight arrangements and complaints handling processes were also reviewed.
- The Financial Sector Laws Amendment Act, Act 23 of 2021, was assented by the President on 28 January 2022. The Act introduces a comprehensive framework for resolution of banks as well as non-bank systemically important financial institutions that may be 'too big to fail'. The Act introduces an explicit, industry-funded deposit insurance scheme to protect qualifying depositors' funds up to a specified limit when a bank fails. The Act amended the Financial Sector Regulation Act, 2017 to provide for the establishment of a framework for the resolution to ensure that the impact or potential impact of a failure on financial stability is managed appropriately and established a deposit insurance scheme, including a Corporation for Deposit Insurance and a Deposit Insurance Fund to provide for coordination, cooperation, collaboration and consultation between the Corporation for Deposit Insurance and other entities in relation to financial stability and the functions of these entities. The bank is a systemically important financial institution and will be subject to resolution provisions and would be required to contribute to the Deposit Insurance Fund.
- The Protection of Personal Information Act, Act 4 of 2013 (POPIA), promotes the protection of personal information processed by public and private bodies. Most of the sections in POPIA became operational on 1 July 2020 with a 1-year grace period to comply by 30 June 2021. The bank has implemented a comprehensive data privacy framework to safeguard the personal information of our clients and stakeholders. Through the BASA, a Code of Banking Practice has been endorsed by its members to provide safeguards for consumers. This Code remains a focus area in the coming year and has been published by the Information Regulator for comment.
- The Employment Equity Amendment Bill, 2018 – The Department of Employment and Labour introduced the Employment Equity Amendment Bill to the National Assembly in order to speed up transformation. The Bill will allow the Minister of Labour to publish sectoral targets.
- Conduct of Financial Institutions Bill – The Bill, once effective, will provide a principles-based regulatory framework for the conduct of financial institutions, that will be informed by various standards published in terms of the Act. The Bill in its current form will repeal some of the regulatory instruments that currently regulate the bank's financial product and service offering, most notably the Financial Advisory and Intermediary Services Act. Financial institutions will be required to be licensed under the Act for financial services and products. The Bill also sets out detailed amendments to other financial sector laws.
- The FSCA and the PA published a draft IT Risk Standard. The standard seeks to impose various requirements on financial institutions in relation to requirements for sound practices and processes of IT risk management.
- The FSCA published proposed amendments to the Long-term Insurance Act Policyholder Protection Rules in July 2021. The amendments focus on alignment with more recent industry developments and specific issues identified by the FSCA in relation to the application of the Policyholder Protection Rules.
- The NCR is undertaking 2 reviews which focus on the CLI regulations and the fees and interest rate regulations in the NCA. This is an important development as the CLI regulations regulate CLI pricing, structuring and product features. Any changes to the current regulations will have an impact on the bank's CLI product offering. Similarly, any changes to the maximum prescribed fees, charges and interest rates will have an impact on the bank's credit pricing, profitability and credit product features. Through the BASA, comments were submitted by its members to the NCR. The bank also made individual submissions to the NCR in relation to items not addressed in BASA's submissions.
- The Minister of Trade, Industry and Competition published proposed amendments to the Companies Act in October 2021. The amendments focused on issues relating to providing greater transparency on wage ratios at firms, improving the ease of doing business and addressing true or beneficial ownership of companies. The development of this Bill is important to note due to the fact that the amendments will have to form part of the bank's processes and procedures. Through the BASA, comments were submitted by its members.
- National Treasury published the draft Financial Sector and Deposit Insurance Levies which was introduced to the National Assembly. The Bill provides, among others, for:
  - the imposition of financial sector levies on supervised entities and the determination of amounts payable
  - the imposition of a deposit insurance levy to fund the operations of the Corporation for Deposit Insurance and the administration of the fund
  - the exemption from such levies under certain circumstances
  - the allocation of amounts levied to financial sector bodies.

  The development of this Bill is important as once it comes into effect, the bank will be required to pay levies as envisaged in the Bill.
- National Treasury published the draft Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill, 2022 in December 2021. The development of the Bill is important as once it comes into effect, the FSCA will not be the sole entity responsible for the collection of levies in terms of the Levies Bill. The SARB will collect levies that are payable to the PA and deposit insurance levies that are payable to the Corporation for Deposit Insurance. The bank will be required to pay levies as envisaged in the Bill. Comment on the Bill is due to National Treasury by 7 February 2022. The Bill is currently under consideration in the National Assembly.

Conduct risk

Our market conduct risk framework is designed to enable us to identify and monitor the level of market conduct risk, respond to the identified risks and to monitor the effectiveness of relevant controls. We communicate to all employees our approach and commitment to implementing, maintaining and developing policies, procedures and measures to ensure fair treatment of our clients throughout the product and service life cycle. We conform to the TCF principles as well as Conduct Standard 3 of 2020 for Banks issued by the FSCA under the Financial Sector Regulation Act, Act 9 of 2017.

The Conduct Standard took effect in 3 phases between July 2020 and July 2021 for which the required training and controls were implemented.

Model risk

The model risk management function provides risk oversight, accountability, policies and standards for model development across the business. We have seen a substantial increase in the number of models in operation and the complexity thereof as the use of machine learning models increases.

Supplier and third-party risk

Supplier and third-party risk management is an important risk discipline considering our level of reliance on them in providing our products and services. The supplier risk committee oversees the activity and provides direction and strategic input to ensure that risks are promptly identified and mitigated.

Risk management report continued

Market risk

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

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

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

Interest rate risk

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

Retail bank

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

Business bank

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

Impact of the liquidity strategy

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

Effect of shareholders' equity

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

Managing interest rate risk

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

Our appetite for interest rate risk is managed according to set limits that are applied using balance sheet and earnings measures. We assess the impact of rate changes on the net present value of the retail loan book and related funding, and the potential impact of an open position on current and future profitability.

Insurance risk

Classification

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

The group has 2 third-party cell captive agreements where Capitec Ins is the sole owner of the cell captive, which is underwritten by a licensed cell captive insurer. The cell captive agreement enables the group to provide credit life and funeral policies to its clients.

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

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

Credit life product types

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

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

Valuation of insurance agreement liabilities

The licensed cell captive insurer's accounting policy is applied to the third-party cell captive. The cell captive insurer utilises Standard of Actuarial Practice (SAP) 104 and Advisory Practice Notes issued by the Actuarial Society of South Africa to determine the policyholder liabilities of the cell captive.

With respect to the retained insurance risk, judgement is required in determining the actuarial movements of the insurance agreement liabilities held by the cell captive. There is uncertainty with regard to the claims that will be made by clients, which is dependent on a number of unpredictable factors. The cell captive insurer makes this judgement based on the best estimate and in accordance with SAP 104 principles.

The insurance agreement liabilities comprise of a provision for claims incurred but not reported (IBNR). The IBNR provision is measured at the best estimate of ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not.

Risk governance

The RCMC is responsible for the following in the insurance operations:
- Providing oversight of the product types
- Financial resource management
- Responsibility for the pricing of the insurance portfolio lies with the ALCO.

The licensed cell captive insurer has a robust corporate governance and regulatory framework in place to manage insurance risk. The cell captive insurer has the following board and control functions in place that govern and challenge inputs, models and the results of valuations:
- Audit committee and RISCO
- Risk management control function
- Internal audit control function
- Compliance control function
- Actuarial control function.

The licensed cell captive insurer performs the actuarial function which includes (but is not limited to) premium rating, capital and reserving requirements and risk mitigating strategies, and is an important component of the own risk and solvency assessment process.

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

General risk management

As the group's insurance portfolio is housed in a third-party cell captive, the group is jointly responsible for the insurance risk which is managed in 2 separate processes:
- Product design and pricing of the Insurance business
- Management of the in-force book.

Indicates information that was audited.

Indicates information that was audited.

Product design and pricing of the Insurance business

The group ensures that the insurance portfolio is priced correctly and understood in detail by following the steps below:

- Rigorous and proactive risk management ensures sound product design and accurate pricing. This includes:
  - challenging assumptions, methodologies and results
  - debating and challenging product relevance, the target market, market competitiveness and treating clients fairly
  - identifying potential risk
  - thoroughly reviewing policy terms and conditions
- Risk-based pricing is applied and the mix of business by channel is also monitored
  - Maintaining the appropriate reinsurance cover for the funeral business is an important component of the pricing and product design to keep the insurance risk within appetite.

Management of the in-force book

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

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

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially to the extent that claims paid are more frequent and/or greater than originally estimated. The group manages the insurance risk by monitoring incidence rates, claims ratios and business mix.

Rigorous and proactive risk management processes are in place to ensure sound product design and accurate pricing. These include:

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

Detailed risk management per risk type

Mortality (death) risk

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

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

Morbidity (disability) risk

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

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

Retrenchment risk

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

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

Catastrophe risk

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

- Monitoring of trends and experience of the insurance portfolio.

Lapse risk

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

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

Expense risk

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

Equity and currency risk

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

Equity risk

We do not deal in equity instruments and the group has limited exposure to equity risk.

Operational currency risk

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

Trading currency risk

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

Hedging risk

To reduce market risk and the impact of currency volatility, we use hedging mechanisms. The ALCO, however, only allows the following derivatives to be used for hedging risk in the banking book:

- Interest rate swaps are used to convert floating-rate to fixed-rate funding to match the fixed-rate nature of certain assets and funding
- Forward foreign exchange contracts are used to cover obligations relating to capital equipment, technology and technology support services needed for the core banking activities.

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

Indicates information that was audited.

Capital and liquidity risk

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

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

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

Read more about capital and liquidity management in the Report from the Chief Financial Officer from page 14 and in note 33 to the audited financial statements.

Capital management

Our objectives when managing capital are to:

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

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

Risk management report continued

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

Capital to manage risk and growth

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

Supply-side risk

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

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

Demand-side risk

Demand-side risk involves monitoring the growth in RWA. This, in turn, drives the growth in regulatory and our own internal capital requirements. Our internal risk management function addresses the demand-side risk, which encompasses risks that have a negative impact on earnings and capital.

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

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

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

	GROUP		BANK	
R'000	2022	2021	2022	2021
Regulatory capital adequacy				
Composition of qualifying regulatory capital				
Ordinary share capital[1]	5 649 020	5 649 020	6 105 981	6 105 981
Foreign currency translation reserve	31 438	50 291	—	—
Other reserves	474 779	(64 893)	(17 607)	(59 931)
Retained earnings	29 559 311	24 225 346	26 146 944	23 436 616
Total ordinary shareholder equity	**35 714 548**	**29 859 764**	**32 235 318**	**29 482 666**
Regulatory adjustments				
– Intangible assets, deferred tax assets excluding temporary differences and goodwill in terms of IFRS 9[8]	(1 329 617)	(1 458 975)	(1 306 500)	(1 458 661)
– Specified advances and other regulatory adjustments	(3 403)	187 890	—	191 253
– Unappropriated profit	(3 191 782)	(716 053)	(2 282 680)	(782 348)
Common equity tier 1 capital (CET1)	**31 189 746**	**27 872 626**	**28 646 138**	**27 432 910**
Issued preference share capital[1]	51 167	55 641	51 167	55 641
Phase-out – non-loss-absorbent[2][7]	(51 167)	(29 744)	(51 167)	(29 744)
Additional tier 1 capital (AT1)	**—**	**25 897**	**—**	**25 897**
Tier 1 capital (T1)	**31 189 746**	**27 898 523**	**28 646 138**	**27 458 807**
Unidentified impairments	749 377	647 835	749 999	649 510
Tier 2 capital (T2)	**749 377**	**647 835**	**749 999**	**649 510**
Total qualifying regulatory capital	**31 939 123**	**28 546 358**	**29 396 137**	**28 108 317**
CET1 (%)	35.4	35.8	33.0	35.2
AT1 (%)	—	0.1	—	0.0
T1 (%)	35.4	35.9	33.0	35.2
T2 (%)	0.9	0.8	0.9	0.9
Total capital adequacy (%)[3]	**36.3**	**36.7**	**33.9**	**36.1**

Refer to footnotes on page 97.

Indicates information that was audited.

	GROUP		BANK	
R'000	2022	2021	2022	2021
Composition of required regulatory capital				
On-balance sheet	7 102 134	5 654 894	7 152 392	5 677 563
Off-balance sheet	48 570	39 383	48 570	39 383
Credit risk	7 150 704	5 694 277	7 200 962	5 716 946
Operational risk	1 267 979	1 026 976	1 249 220	1 028 998
Market risk	1 196	5 007	1 196	5 007
Equity risk	477 381	577 464	333 996	589 615
Other assets	1 669 230	1 254 413	1 624 794	1 234 418
Total regulatory capital requirement[4]	**10 566 490**	**8 558 137**	**10 410 168**	**8 574 984**
Composition of RWA[5]				
On-balance sheet	59 184 454	51 408 127	59 603 264	51 614 212
Off-balance sheet	404 753	358 031	404 753	358 031
Credit risk	59 589 207	51 766 158	60 008 017	51 972 243
Operational risk	10 566 491	9 336 148	10 410 168	9 354 528
Market risk	9 965	45 513	9 965	45 513
Equity risk	3 978 176	5 249 671	2 783 296	5 360 135
Other assets	13 910 253	11 403 742	13 539 952	11 221 979
Total RWA	**88 054 092**	**77 801 232**	**86 751 398**	**77 954 398**
Total assets based on IFRS	177 942 781	156 506 986	176 409 292	156 411 907
Total RWA – adjustments[6]	(89 888 689)	(78 705 754)	(89 657 894)	(78 457 509)
Total RWA – regulatory	**88 054 092**	**77 801 232**	**86 751 398**	**77 954 398**

(1) For further details of the main features of these instruments, please refer to the Main Features of Capital Instruments and Traditional Basel 3 template on the Capitec Bank website.

(2) Starting 2013, the non-loss-absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.

(3) The total CAR percentage is determined by dividing the total qualifying regulatory capital by total RWA.

(4) This value is currently 12% of RWA, being the Basel global minimum requirement of 8%, the South African country-specific Pillar 2A buffer of 1%, the Capital Conservation Buffer of 2.5% and the Domestic Systemically Important Bank (D-SIB) capital add-on of 0.5%. In terms of the regulations relating to banks the idiosyncratic capital requirement (ICR) Pillar 2B requirement is excluded. Per Directive 5 of 2021, the 1% Pillar 2A South African country-specific buffer was reinstated on 1 January 2022. This buffer was temporarily relaxed from 6 April 2020 until 31 December 2021, to provide temporary capital relief to banks during the outbreak of the COVID-19 pandemic.

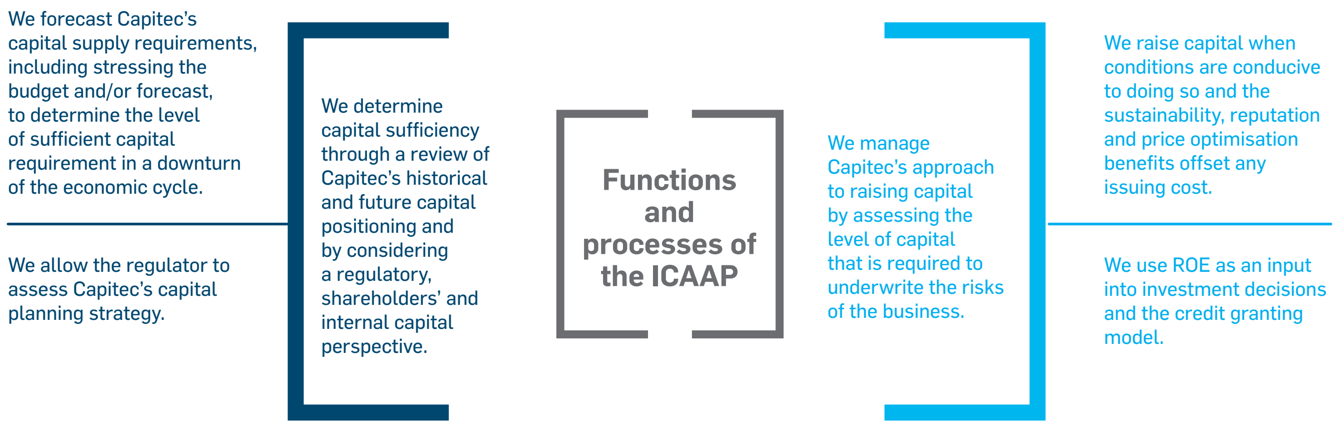
(5) RWA is calculated by using regulatory percentages applied to the balance sheet in order to establish the base for calculating the required regulatory capital.

(6) The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.

(7) The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. As at 28 February 2022, 80.24% (2021: 78.51%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

(8) In terms of the regulations relating to banks, goodwill and intangible assets net of the related deferred tax liability, are treated as specific adjustments and are deducted from CET1 capital and reserve funds.

Risk management report continued



Internal capital adequacy assessment process

The ICAAP addresses the management of capital and solvency risk and risks arising from the procyclicality of business operations through the economic cycle. This involves broad-based participation from key risk owners and is subject to periodic review by internal audit and relevant external consulting specialists that benchmark our process against best practice. The ICAAP is submitted annually to the SARB for review.

Basel 3

Basel 3 sets the minimum standards required to comply with the longer-term prudential liquidity ratio. We calculate our regulatory capital requirement for credit and operational risk by using a percentage applied to the RWA of the business. Various methods are used to calculate risk weights in terms of the Banks Act. We use the standardised approach to calculate RWA for credit and equity risks in the banking book. Our calculation of operational risk is governed by the alternative standardised approach.

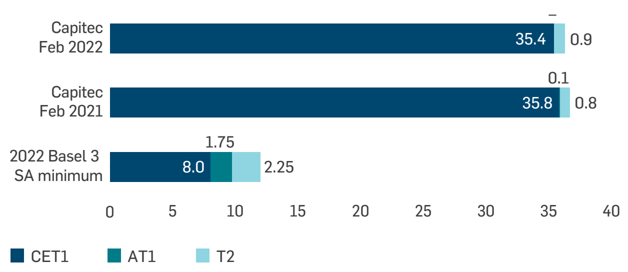
Loss-absorbency

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

Leverage ratio

The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. The regulatory leverage ratio amounted to 17.5% (2021: 17.6%); Capitec Bank Limited has a leverage ratio of 16.2% as at 28 February 2022 (2021: 17.4%).

CAPITAL ADEQUACY BY TIER (%)



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

AT1 capital: Our perpetual preference shares qualify as entry-level AT1 capital and are subject to phasing out in terms of Basel 3 as they do not meet new loss-absorbency standards.

T2 capital: General allowance for unidentified impairments.

Globally, the Basel 3 minimum capital adequacy percentage is 8%. The current Basel 3 South African minimum includes the South African country buffer of 1%. The PA issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1% to provide temporary capital relief to banks during the time of financial stress following the outbreak of the COVID-19 pandemic, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework. The buffer was reinstated on 1 January 2022.

The current Basel 3 South African minimum includes the capital conservation buffer of 2.5%, which was phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.

The PA issued Directive 4 on 27 August 2020. Directive 4 has replaced Directive 6 of 2016 and requires banks to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure. Both Capitec's and Capitec Bank's D-SIB capital add-on requirement amounts to 0.5%. Excluded from the South African minimum is the Basel 3 bank-specific buffer, which is the ICR.

Bank-specific buffers

Bank-specific buffers include the ICR. In terms of the Banks Act regulations, banks may not disclose their ICR requirement.

Countercyclical buffer

This buffer can range between 0% and 2.5% at the discretion of the monetary authorities. It is not expected that this buffer will be applied on a permanent basis; it will only be applied when credit growth exceeds real economic growth. The implementation period commenced in January 2016 with the rate of 0%.

Restrictions on the transfer of regulatory capital

Given our simple structure and the fact that all the operations are in South Africa, the only restrictions on the transfer of ordinary equity reserves relate to the statutory limitations on investments in certain associates as defined in the Banks Act. Subordinated debt issued by Capitec Bank is not available for distribution to Capitec.

Capital recovery plan

A capital recovery plan detects possible capital stress occurrences and provides guidance on appropriate actions to respond to early-warning signs. As it is difficult to obtain additional capital in times of stress, we have a proactive and preventative approach to capital procurement. Management makes use of positive market conditions and positioning to obtain additional capital.

Liquidity risk

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

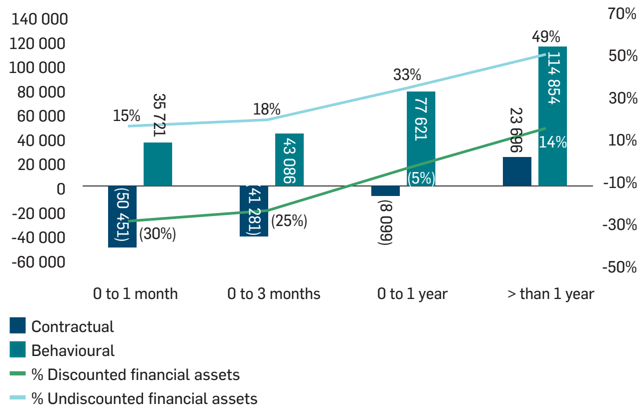
Our approach to liquidity risk remains conservative. There were no changes to the liquidity policy over the past financial year. The management of liquidity takes preference over the optimisation of profits.

To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. The amount of cash not deployed in the loan book or in cash is R90.1 billion (2021: R75.8 billion). These funds are invested in low-risk, liquid, interest-bearing instruments. These assets provide a positive return.

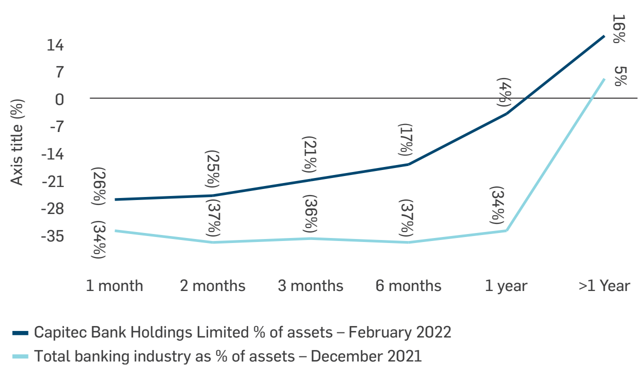
The liquid asset requirement of R6 166.8 million (2021: R4 215.0 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills, government bond-backed resale agreements and cash. The intention is to hold all treasury bills to full maturity.

For cash planning purposes, we use the contractual mismatch and not the behavioural mismatch.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES (R'm)



INDUSTRY COMPARISON –
CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES



Contractual and behavioural liquidity mismatches

Contractual and behavioural mismatches benefit from our high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits; 90.1% of these deposits (2021: 89.76%) are reflected as stable based on a standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions.

We complied with all regulatory liquidity capital requirements during the current and previous years.

Liquidity coverage ratio

The LCR is a 30-day stress test, using 90 days (actual data points for the quarter) to calculate an average for the quarter. It requires banks to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

	2022	2021	2020	2019
LCR (%)	2 881	2 459	1 696	1 450
High-quality liquid assets (R'm)	81 575	57 602	32 990	16 352
Net outflow (R'm)	2 832	2 343	1 945	1 128

As we have a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows. A ratio of 90% or more represents compliance in terms of Basel 3 requirements. The PA issued Directive 1 of 2020 on 31 March 2020 and temporarily relaxed the minimum LCR requirement on 1 April 2020 from 100% to 80%. The reason for the decrease is attributable to the financial market turmoil following the outbreak of the COVID-19 pandemic, where market liquidity has decreased and banks are expected to be under increased pressure to comply with the prescribed LCR requirements. The PA issued Directive 8 of 2021 on 29 October 2021 which directed banks to comply with a minimum LCR requirement of 90% with effect from 1 January 2022, and a 100% requirement with effect from 1 April 2022.

Net stable funding ratio

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. It also strongly relies on retail deposit funding. A ratio of 100% or more represents compliance.

	2022	2021	2020	2019
NSFR (%)	225	221	196	196
Required stable funding (R'm)	70 018	61 746	61 884	46 548
Available stable funding (R'm)	157 548	136 500	121 041	91 044

The NSFR is calculated according to the SARB rules. Our conservative approach to liquidity management has resulted in compliance with these 3 Basel ratios on a level that is consistently higher than required.

Retail call deposit limit ratio (RCDR)

The RCDR is an internal ratio looking at the next 6 months. The purpose of the ratio is to ensure that call deposits are not lent out for long-term loans. This ratio is stricter than Basel ratios and that is the reason why compliance with Basel ratios has always been met without any adjustment to internal liquidity measurements.

Retail call deposit tolerance

The retail call deposits liquidity tolerance is a treasury tool to indicate how quickly the bank can pay back deposits. This is calculated by applying future cash from loans, wholesale and fixed-term maturities to any current cash deficit that may arise.

Liquidity recovery plan

The liquidity recovery plan requires that the bank has a liquidity monitor and a set of triggers developed to help identify the early stages of a liquidity crisis.

The monitor addresses 2 phases of liquidity difficulty, namely:

Early stage

This is the lower-risk stage that provides management with more opportunity to manage the bank out of a potential crisis.

Late stage

This is the high-risk stage where management's opportunities for corrective action are limited by the circumstances.

After a range of stress indicators were assessed, it was evident, on an overall balanced basis, that neither early- nor late-stage liquidity stress exists.

Reputational risk

Our reputation relies on the perception of clients, investors, employees and regulators. Their perceptions and expectations can have a positive or negative impact on future earnings and our ability to raise capital. This constitutes reputational risk.

Reputational risk is managed directly at an executive management level and escalated to the board in case of significant events. We manage reputational risk on an ongoing basis through a policy framework that details the expected behaviour of business units and employees. It guides us on the monitoring of employee behaviour and specific client responses as well as to society in general. For example, the policy framework requires that we report in a transparent way through our integrated annual report, financial statements and other public statements.

To mitigate reputational risk, we have:

- a centralised policy on media
- an escalation process for complaints
- clear relationships with stakeholders.

Reputational incidents are dynamic and can be complex. We actively manage these by using a security incident and event-monitoring solution. This helps us to proactively monitor intelligence to identify and respond to incidents, including cyberattacks. Our social media monitoring tool tracks all posts related to Capitec.

We use various processes and procedures to ensure ethical and responsible use of technology and information, thereby protecting our reputation. We focus on a well-governed conduct management approach.

Remuneration report

Our remuneration report comprises 3 parts:

- *Part 1 consists of a background statement in the form of a letter from the REMCO chairman, reporting on factors that influenced the remuneration policy and forward-looking approaches, and the implementation of the policy over the past financial year*
- *Part 2 contains the forward-looking remuneration policy*
- *Part 3 illustrates the implementation of the remuneration policy during the 2022 financial year.*

Part 1: Background statement

Letter from the REMCO chairman

The impact of the COVID-19 pandemic on the South African economy over the past 2 years was challenging, but also presented us with opportunities to enhance our clients' experience, such as the implementation of new digital solutions. The business proved its ability to adapt rapidly to prevailing circumstances and we are proud of how our internal stakeholders have risen to these challenges and opportunities. I am therefore especially pleased to present to you our remuneration report for the financial year on behalf of the REMCO.

Capitec remains focused on developing remuneration strategies that best serve stakeholder interests through sustainable growth. Remuneration is based on the successful implementation of these strategies to ensure that we only reward actions that advance stakeholder interests and that pay is appropriately aligned to performance. We continually monitor developments in regulation, best practice and related changes in the market that may have an impact on our approach to remuneration and regularly take input from stakeholders into consideration. We have engaged independent external remuneration consultants to ensure that our remuneration policy remains fit for purpose in a dynamic and changing environment and is aligned to the achievement of our strategies. In particular, we see our remuneration policy as key to our ability to attract and retain talent in a market where the battle for talent is fierce.

Shareholder engagement and voting outcomes

Shareholder engagement is a crucial part of our stakeholder engagement. Therefore, the REMCO charter specifies that we should adequately disclose information to stakeholders to facilitate constructive engagement with all relevant stakeholders, including shareholders.

As part of our ongoing commitment to proactively consult with our shareholders, we engaged with a number of our larger institutional investors ahead of our AGM in May 2021 to discuss the remuneration policy and implementation report which subsequently received 79.16% (2020: 89.84%) and 48.75% (2020: 90.07%) of total votes in favour from shareholders, respectively, at the AGM. Given the downturn in voting outcomes and in compliance with King IV™ and the JSE Listings Requirements, we extended a further invitation for engagement to dissenting shareholders to understand their objections and rationale for their votes. Although this invitation was unfortunately met with no response, the REMCO had the opportunity to meet with several of our larger institutional investors later during the financial year to continue the discussion on our remuneration policy.

The key themes arising from our conversations with our shareholders, as well as our responses thereto, are set out in the table below.

Shareholder comments or concerns	Our response
The use of discretion to amend in-flight short-term incentive (STI) targets, replacing headline earnings per share (HEPS) with headline earnings, leading to higher payouts	• Given the impact of the COVID-19 pandemic, the board approved an adjusted budget in September 2020 which was used to set a new realistic target for the STI bonus calculation. The new STI target was based on the adjusted headline earnings for the financial year. The change from HEPS to headline earnings was never intended to have an impact on the resulting payment. Rather, the change was motivated by a desire to ensure consistency and alignment with the majority of other annual performance bonus schemes operated across the organisation, in terms of which bonuses are determined based on headline earnings so that all employees are aligned in their efforts to drive the financial performance of the business; and • that the STI is determined in a way that is easy for all employees across the business to engage with using the more widely communicated and easy to understand measure of headline earnings. Poor alignment and limited understanding of a performance bonus calculation undermines the constructive behavioural impact that such an incentive aims to achieve and, as such, the REMCO is satisfied that the changes were in the best interest of all stakeholders as they reinforce reward for actual performance and drive future performance.
Lack of disclosure on the use of KPIs in the determination of the STI	Personal performance has been an entry criterion for participation in the STI of all executives for quite some time. Going forward, we have refined this by bringing in a scaled entry criterion, with personal KPI scores resulting in a 0% (for scores less than 2) 50% (for a score of 2), or 100% (for scores 3 and above) payment of the individual's STI. We have further refined the STI approach to include a clearer determination process with associated weightings linked to financial performance of the group and non-financial strategic leadership initiatives. The REMCO believes that the adoption of a collective group balanced scorecard to determine the bonus funding pool, along with the disclosure of the group financial and non-financial KPIs in that scorecard, provides shareholders with comfort that STI payments reward holistic performance. This is discussed in Part 2 of the report, under the heading 'Short- term incentive'.
The STI structure provides uncapped earning opportunities	The REMCO sets the on-target quantum of STIs quite low proportionally to total remuneration (TR) (approximately 13% of TR), especially when compared to market, which typically averages, for the banking comparator group, approximately 20% – 25%. Capitec does not have a stretch target in place and the STI is structured in such a way that any outperformance of the headline earnings target will only result in an incremental increase in the STI payable on a sliding scale. As such, even where Capitec outperforms its headline earning targets, the resultant STI payment will still be lower than the market average for equivalent performance. This is consistent with our declared remuneration philosophy of reward that is commensurate with performance achieved, and of putting focus on long-term performance over short-term gains. This is explained in more detail under 'Short-term incentive' below. Also refer to the visual scenario graphs in Part 2 under the heading 'Key management and divisional executives' pay mix'.

Remuneration report continued

Shareholder comments or concerns	Our response
The use of discretion to amend the performance period of in-flight long-term incentive (LTI) awards from 2018 to only consider performance preceding COVID-19, the outcome of which meant performance was measured over 2 years and a full vesting of awards	In considering the 2018 grant vesting outcomes, the REMCO took into account the excellent performance of key management* during the first 2 performance years as well as their resilient, tireless and ingenious efforts during the 3rd performance year (2021 financial year) as evidenced in the share price recovery, the ability to have paid dividends, the recovery of headline earnings and the continued protection of livelihoods during the pandemic. In light thereof, the REMCO decided to take a balanced approach and to base the vesting of the 2018, grant for which the 3-year performance period ended during the 2021 financial year, on the performance of the 2 years preceding COVID-19 as the REMCO believed it resulted in a fairer outcome at the time. The exclusion of the 2021 financial year was as a result of the occurrence of an extraordinary global event, outside the control of management. Following our various discussions with shareholders, and taking into account the macroeconomic impact which COVID-19 had on GDP numbers, the REMCO critically evaluated how the HEPS KPI should be measured for the March 2019 and April 2020 awards, which will only be performance-assessed at the end of the 2022 and 2023 financial years, respectively. Currently, the HEPS KPI is measured in a binary format on a 3-year rolling basis, with the targets set relative to CPI + GDP + 4%. It is important to note that the 4% spread is assessed prior to the commencement of the 3-year forward-looking performance period taking into account appropriate facts, circumstances and relative assumptions at the point of award (3 years prior to performance vesting being concluded). As a consequence of the negative GDP delivery for the 2021 financial year (i.e. an effective GDP decline of ~7%), the REMCO evaluated how it can sustain the principle of fair and responsible pay to both shareholders and executives in assessing the March 2019 and April 2020 awards' performance outcome. Consequently, a decision was taken to exclude the anomalous 2021 financial year from the vesting analysis (both for purposes of target setting and the assessment of company performance). This will ensure that the target is a realistic growth target which is not unduly suppressed as a result of the anomalous year and will ensure a fair assessment of performance relative to this higher target and therefore mitigate against the potential of any future windfall gains. This is set out in more detail in Part 3, the implementation report.
Concern that LTI performance conditions are not sufficiently challenging with particular reference to ROE	The REMCO reviews all incentive schemes' appropriateness every year, including the vesting performance criteria for the key management LTIs. We believe the HEPS measure (CPI + GDP + 4%) is still relevant and sufficiently challenging, taking into account facts, circumstances and relative assumptions available at the time (i.e. 3 years prior to performance testing being concluded). This is also consistent with the approach we have followed historically. Following our discussions with shareholders, and as part of the transition of moving away from a binary ROE performance assessment, a vesting scale was introduced for the ROE measure (50% weighting) for awards going forward. • Tier 1 (50% vesting): 3-year average group ROE exceeding 3-year average ROE of 4 traditional banks • Tier 2 (full vesting): 3-year average group ROE exceeding 3-year average ROE of 4 traditional banks +2%. This is discussed in more detail in Part 2 of this report under the heading 'Long-term incentive'.

* *Key management is considered to be the members of the group EXCO, excluding development members.*

We are grateful to our shareholders for the meaningful discussions and for providing us with their valuable inputs. We remain committed to ensuring that we consult our shareholders on the remuneration policy on an ongoing basis.

The REMCO will again meet with our larger key institutional shareholders in one-on-one meetings ahead of the 2022 AGM to discuss Capitec's remuneration policy and its implementation as presented in the 2022 financial year report, and feedback received from these engagement sessions will be reported on in the 2023 financial year report.

Policy changes implemented

We believe that our remuneration policy continues to serve our stakeholders' interests as we reward actions that advance stakeholder interests and ensure that remuneration is appropriately aligned to performance. The following policy changes were implemented during the year:

- After the 2021 financial year determination that headline earnings was a more appropriate measure than HEPS for purposes of determining performance for the STI, this has been permanently adopted. Personal performance has been a requirement for participation in the scheme for quite some time. For future STIs, we have also made refinements to the impact of personal KPIs on participation in the scheme and group KPIs (financial and non-financial) in the determination of STI outcomes.
- As communicated in the 2021 financial year report, a new LTI plan was introduced for selected senior employees, future successors and key talent (excluding the CEO and CFO). The plan takes the form of a co-investment structure aimed at driving both a culture of ownership and providing an element of long-term lock-in, while ensuring that pay is aligned to the shareholder experience by having increased 'skin-in-the-game'. The salient features of the new structure are set out in Part 2 of this remuneration report.
- A tiered vesting scale was introduced for the ROE measure for LTI grants from the 2023 financial year onward, as part of our journey of moving away from binary performance vesting outcomes. The vesting scale allows for 50% vesting and full vesting of the ROE measure's (50%) weighting of the total vesting outcome.

Overview of our performance and remuneration outcomes – key highlights

Capitec grew strongly in the year under review, as discussed in the Review by the Chairman and Chief Executive Officer on page 8 and the Report from the Chief Financial Officer on page 14, respectively. Headline earnings recovery was strong and exceeded pre-pandemic levels through growth of 84% from R4.586 billion to R8.440 billion. This was coupled with a ROE of 26%. Our leadership team successfully executed on our strategic priorities for the year and are to be commended, along with our employees, for their resilience and ongoing efforts in realising our vision of being the preferred retail and business bank in South Africa.

Total guaranteed pay (TGP)

In light of the impact of and uncertainty brought about by the COVID-19 pandemic, it was decided not to make any adjustments to the guaranteed pay of executive directors for the 2021 financial year. For employees below executive level, the decision was taken to award increases on a sliding scale in order to minimise the negative financial impact on and ensure the well-being of our more vulnerable employees.

Following careful deliberation as to the strong performance of the executive directors in executing on our strategic priorities and in safeguarding both shareholder interests and those of our clients, the REMCO decided to proceed with making market adjustments to the TGP of executive directors for the 2022 financial year to bring them in line with the median of the market. The details of the increases are set out in Part 3.

The average TGP increase awarded to all employees was 4.6%.

Short-term incentive (STI) and long-term incentive (LTI)

STIs were paid to all employees across the business. The vesting outcomes for the 2019 LTI awards, for which the 3-year performance period ended during the 2022 financial year, were 100%.

The REMCO is satisfied with the implementation of the remuneration policy during the year. More details about the implementation of the remuneration policy are set out in Part 3 of this remuneration report.

Activities of the REMCO

During the year under review, in addition to the standing agenda items, the REMCO oversaw the following actions:

- Implemented a co-investment plan for senior employees, future successors and key talent, aimed at fostering a culture of ownership and alignment with shareholder interests
- Introduced a scorecard approach to the determination of STIs, lessening the discretionary aspect of STI awards and better aligning to market practice (for the 2023 financial year)
- Reviewed the continued appropriateness of LTI performance conditions and targets in light of shareholder feedback and introduced a vesting scale on the ROE performance condition (thereby moving away from only binary performance targets)
- As tasked by the board through the REMCO charter, confirmed that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act and King IV™ and to take into account stakeholder feedback
- Monitored remuneration practices and adherence to the remuneration policy, having met formally 3 times over the year and informally on an *ad hoc* basis, as deemed necessary

Remuneration report continued

- Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust
- Evaluated and approved all annual increases for Capitec employees and proposed non-executive directors' fees to the board for recommendation to the shareholders for consideration at the AGM
- As required by Basel and King IV™, considered whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking
- The REMCO charter incorporates the regulations of the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, align with shareholder expectations and remain within a required risk framework. It is satisfied that these requirements have been met.

Our areas of focus for the 2023 financial year

In line with our charter, the REMCO continuously evaluates the remuneration policy against best practice and feedback received from stakeholders. The REMCO and management review employee remuneration and benefits continuously, taking into account, among other things, internal and external fairness as well as the overall remuneration spectrum in relation to key management remuneration levels. This involves being sensitive to the need for corporates to address unfair income disparities and employees' socio-economic challenges.

We progressively evolve our disclosure with the aim of ensuring that our reporting is transparent, accessible and in line with best practice.

During the 2023 financial year, in addition to the above, the REMCO and management will focus on the following:

Remuneration aspect	Forward-looking approach for the 2023 financial year
Fair and responsible remuneration	Capitec will, in line with our philosophy of remunerating fairly and responsibly, conduct a wage gap analysis to establish any internal pay discrepancies. We will also commence with establishing key fair pay principles for Capitec which we will ultimately formalise in a fair pay framework.
Review the TR of employees with key critical skills	In order to ensure that Capitec continues to attract and retain highly sought-after key critical skills, Capitec will review the TR offering and pay mix of these roles to ensure that they remain relevant and incentivising and are appropriately aligned to our remuneration philosophy.
Key management LTI structure	Taking into account the feedback received from shareholders during our engagement sessions, and coupled with our focus on attracting and retaining highly sought-after key critical skills for purposes of aiding strategic delivery and operational execution, Capitec will review the existing key management LTI structure to: • assess the effectiveness of the scheme for purposes of future application, taking into account where the company is in terms of its life cycle, the changes in the market, and the need to retain key critical skills • ensure that it continues to support the delivery of strategic objectives over the long term • ensure that the performance conditions are appropriate and sufficiently stretching.

Changes to the REMCO

The 2022 financial year also brought changes to the REMCO, with the retirement of Jock McKenzie from the board on 28 May 2021. We thank Jock for his valuable contributions during this term as a member of the REMCO. We are pleased to have welcomed Vusi Mahlangu as the newest member to the REMCO.

External advice to the REMCO during the year

During the 2022 financial year, the REMCO fully executed its duties in accordance with its charter, relevant legislation, regulation and governance standards. In support thereof, Capitec enlisted the services of independent remuneration advisors, PwC, to advise and assist with various remuneration matters, including the review of variable incentives. The REMCO is satisfied that PwC's services, as rendered, were independent and objective.

At the 2022 AGM, shareholders will have the opportunity to vote on remuneration. In line with the JSE Listings Requirements, there will be 2 separate votes on the remuneration policy and its implementation (Parts 2 and 3 of this report, respectively). If 25% or more of the shareholders vote against either or both, the REMCO will ensure that:

- the result is communicated in a SENS announcement and that due shareholder engagement processes take place. We welcome feedback from our shareholders and will use various methods of shareholder engagement to best accommodate the various shareholders and ensure proper and meaningful engagement. These methods may include written correspondence, individual meetings with large shareholders and REMCO representation at shareholder engagement sessions. Any engagement will be led by the REMCO chairman
- in the following year's remuneration report, we will provide details on the engagement and steps taken to address legitimate and reasonable objections and concerns.

We believe the Capitec remuneration policy and its implementation support the long-term business strategy of the company and look forward to receiving our stakeholders' support.

Danie Meintjes
Chairman of the REMCO

12 April 2022

Remuneration report continued

Part 2: Remuneration philosophy and policy

The remuneration policy, governed by the REMCO, promotes the achievement of company strategic objectives and risk management to foster enduring value creation for stakeholders.

Remuneration governance

The REMCO operates in terms of its board-approved charter, which adheres to section 64C of the Banks Act. The charter is reviewed annually.

The REMCO's mandate is to ensure that we establish and observe remuneration policies and practices that:

- attract and retain individuals able to create enduring and sustainable value
- address remuneration risks inherent in the banking environment.

In carrying out its mandate, the REMCO has unrestricted access to all the activities, records, property and employees of the company. In addition, the REMCO may access external legal or other independent professional advice to execute its responsibilities as detailed in its charter.

In line with the recommendations of King IV™, the REMCO consists of 4 non-executive directors, 3 of whom are independent. The REMCO formally meets at least twice a year. In addition, topics are discussed at less formal occasions leading up to the formal meetings. The REMCO met 3 times during the 2022 financial year.

The following individuals attend the REMCO meetings as standing invitees:

- MS du Pré le Roux *(non-executive director)*
- GM Fourie *(CEO)*
- R Butler *(Executive: human resources).*

Invitees to the REMCO meetings have no vote and are not present when issues affecting their own remuneration are discussed.

Composition of the REMCO as at 28 February 2022

Attendee	Role	Capacity	Meeting attendance
DP Meintjes	*Chairman*	*Independent non-executive director*	3
V Mahlangu*	*Member*	*Independent non-executive director*	2
CA Otto	*Member*	*Non-executive director*	3
SL Botha	*Member*	*Independent non-executive director (chairman of the board)*	3

* *Mr V Mahlangu was appointed as a member of the REMCO on 28 May 2021, after the first REMCO meeting of the reporting year.*

Remuneration philosophy

Our remuneration philosophy originates from our stewardship of stakeholder interests. We develop strategies that best serve stakeholder interests through sustainable growth. Remuneration is based on the successful implementation of these strategies, ensuring performance-aligned pay.

This philosophy is integrated across all employee levels to ensure that we only reward actions that advance stakeholder interests. Our strategies and KPIs are communicated to employees upfront to ensure clarity, alignment, transparency and collaboration across the business. We take care to remain relevant in the market and to compete effectively for critical talent.

Frugality and the responsible use of our resources remain entrenched in our culture and demonstrate our commitment to our fundamental principle of affordability. This pillar underpins the sustainability of our relationships with our clients and employees. With this in mind, we drive innovation, continuous improvement and internal talent development to grow income, produce efficiencies and realise our people's potential. This, in turn, helps us to manage our salary expense while remaining competitive in acquiring and retaining the right talent.

General remuneration principles

The following remuneration principles support our remuneration philosophy:

Fair and responsible remuneration

People are at the core of our business and Capitec is committed to the principle of fair and responsible remuneration and ensuring that key management remuneration is fair and responsible in the context of overall employee remuneration. As a responsible employer, Capitec is sensitive to socio-economic challenges and the need for corporates to address unfair income disparities in society.

In addition, we constantly seek to ensure that the implementation of our remuneration policy results in fair and responsible remuneration and that employees have access to flexible employee benefits that are affordable and accessible.

Continuous efforts in this regard include:

- driving employee awareness and take-up of benefits and learning and development opportunities to realise more value for employees, with special attention to lower levels where there are challenges in terms of exposure and understanding how these opportunities improve employees' quality of life
- continued support of the credit health and general financial wellness of employees through education, awareness and credit rehabilitation in partnership with a specialist service provider
- as part of ensuring internal fair pay practices, continuing to ensure that equal pay is provided for work of equal value so that there are no income disparities based on gender, race or any other unacceptable grounds of discrimination. This includes regular job evaluations and benchmarking.

Fair and responsible remuneration is a key focus area for the REMCO for the 2023 financial year.

Benchmarking

Employees below executive level

Capitec continuously monitors the competitiveness of employees' TR through external benchmarking. For employees below executive level, the company uses the REMchannel® remuneration survey to obtain market insights into remuneration and rewards trends as well as relevant benchmark information.

Executives

Executive remuneration is benchmarked externally at least every 2 years against a comparator group of JSE-listed companies similar in size in terms of market capitalisation and/or industry to ensure that remuneration is fair and in line with the market. In addition, Capitec looks at the remuneration for the 4 traditional South African banks, as the company's closest competitors. The comparator group is reviewed by the REMCO from time to time to ensure that the composition remains relevant. The REMCO reviewed the composition of the comparator group during the 2022 financial year and, but for the removal of RMB Holdings post the unbundling of their share in FirstRand, is comfortable that the existing comparator group remains appropriate for Capitec. The following companies are included in the comparator group:

- Absa Limited
- Bidvest Limited
- Clicks Group Limited
- Discovery Limited
- FirstRand Limited
- Nedbank Group Limited
- Old Mutual Limited
- Remgro Limited
- Sanlam Limited
- Shoprite Holdings Limited
- Standard Bank Limited
- Vodacom Group Limited.

Elements of remuneration and pay mix

We apply appropriate remuneration structures and proportional splits of TR into TGP, STIs and LTIs according to levels of influence (operational, tactical and strategic) and corresponding time horizons (short, medium and long term).

Group	Key management and divisional executives (including the CEO, CFO and executive: risk management)	Senior management group A	Senior management group B (including critical roles)	Other employees
Focus	Leading strategy formulation	Strategic delivery (key management/future talent succession pool)	Critical tactical delivery (succession pool for group A)	Operational
Strategic view	Long term	Medium to long term	Medium term	Short term

Our remuneration offering is set out in the table below.

Element of remuneration	Overview	Eligibility	Period of delivery
TGP	Salary and benefits	All employees	Paid in a year
STI	Cash bonus	All employees (excluding senior management A and B, key management and divisional executives)	Paid in April of the following year
	Senior management performance bonus scheme: the employee receives a cash award, the vesting of which is subject to performance conditions. Following vesting, one-third is paid after 1 year and the remaining portion is deferred, with payment occurring in years 2 and 3. Employees can elect to defer the deferred cash portions into shares in terms of the restricted share plan (RSP) in respect of which employees will receive a small company match on the value of their deferred bonus portion. Senior management group A employees will forfeit the company match in instances where they participate in the co-investment plan. See below.	Senior management groups A and B	One-third is paid after 1 year and the remaining cash is deferred with payment occurring in years 2 and 3. Vesting for restricted shares is set out below.
LTI	Key management bonus	Key management and divisional executives	Paid in a year
	Cash-settled SARs and equity-settled options, the vesting of which is subject to prospective performance conditions.	Key management and divisional executives	Deferred for 6 years with vesting occurring in years 3, 4, 5 and 6.
	RSP – provides senior management employees with the opportunity to defer their bonus into shares. The RSP can also be used to lock in future talent as needed.	Senior management groups A and B	Deferred for 3 years with vesting occurring in years 2 and 3. In the 3rd year, participants shall be entitled to sell up to one-third, in the 4th year up to two-thirds, and in the 5th year, all of the shares.
	Co-investment plan in terms of which participants can choose to invest their own funds in acquiring Capitec shares and receive awards of net-settled options (akin to equity-settled SARs).	Participation by selection only can include members of key management (excluding the CEO and current CFO – the new CFO may participate in the plan if selected), divisional executives and senior management group A	Awards vest in equal tranches in years 4, 6, 8 and 10.

Pay mix

Key management and divisional executives' pay mix

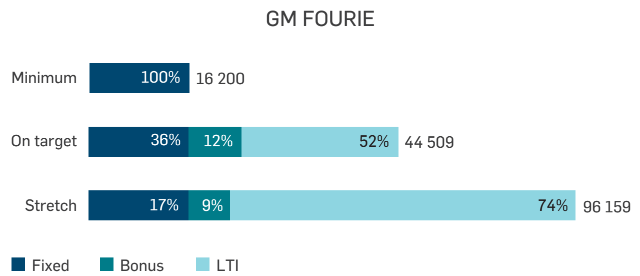
The key management and divisional executive pay mix is split proportionately between TGP, STIs and LTIs. The principles determining the key management and divisional executives' pay mix are:

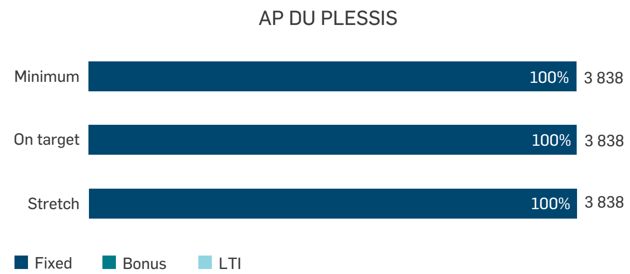
- TGP should be market competitive and sufficient in quantum to ensure that key management and divisional executives do not rely on variable remuneration-based short-term goals and decision-making
- STI earning potential is conservative compared to the market, which supports Capitec's key remuneration principle of long-term alignment with shareholders
- LTIs facilitate this long-term alignment with shareholders' interests – to ensure that key management and divisional executives' pay mix aligns with their long-term focus, a large proportion of the package consists of the LTI paid or vested in tranches over a number of years with performance criteria attached. Key management and divisional executives' LTIs are subject to personal performance criteria at grant and company performance criteria at vesting.

As noted in the STI section below, Capitec does not have a set stretch target for the STI; rather, the STI can increase incrementally commensurate to the outperformance achieved on the headline earnings target. The LTI structure does not provide for a stretch outcome with regard to the ROE and HEPS measures. As the LTI takes the form of options and SARs, in terms of which employees only receive the difference in the growth in the share price between the award date and exercise date, outperformance in terms of the LTI will be directly linked to Capitec's share price growth, with a higher share price growth resulting in a higher LTI outcome. Due to these nuances in our variable pay structure, our pay mix does not lend itself to the typical illustration of threshold, on target and stretch performance as is recommended by King IV™. However, we have included graphs setting out the pay mix of Capitec's executive directors for minimum, on-target and above-target performance purely for illustrative purposes and to demonstrate the strong pay-for-performance culture that is a core principle of our remuneration philosophy. Although the LTI does not make provision for a stretch outcome based on ROE and HEPS performance, the graph illustrates a potential 'above target' LTI outcome in instances where Capitec outperforms in respect of share price growth.

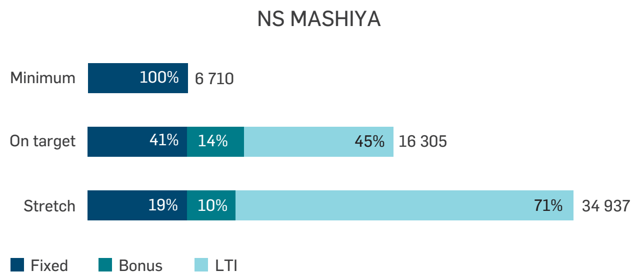
The graphs assume the following:

Element	Calculation minimum	On target	Above target
TGP	TGP as at 1 March 2022, see page 121. Benefits assumed in line with those paid in the 2022 financial year and contributions to the share purchase scheme assumed to be zero.		
STI	Nil	33% of annual TGP	54% of annual TGP
LTI	Nil	The maximum number of instruments granted in the 2023 financial year that might vest multiplied by the fair value on grant.	The maximum number of instruments granted in the 2023 financial year that might vest multiplied by simulated share price growth between date of grant to vesting.





Mr AP du Plessis will not receive a share grant for the 2023 financial year due to his retirement effective 30 June 2022, and he will also not be eligible to participate in the STI. The total TGP is proportionate for 4 months of employment.



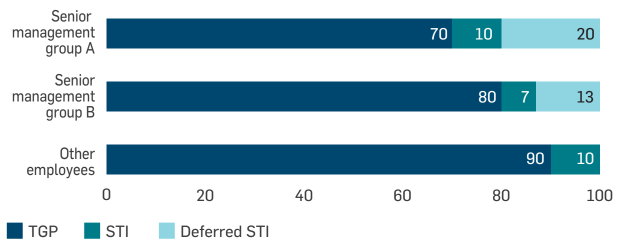
Remuneration report continued

The CEO and current CFO are not eligible to participate in the co-investment plan and it is intended that the plan will only be used on an as-needed basis. In light hereof and the fact that participation is voluntary, the co-investment plan has not been included as part of the executive pay mix detailed previously. Details on this co-investment plan are set out on pages 117 and 118.

Pay mix for all other employees

The pay mix, illustrated with all proportions assuming on target performance:

PAY MIX WITH ON TARGET PERFORMANCE (%)



STIs are awarded to senior management subject to annual company performance year-on-year growth in headline earnings being on or above target and personal performance being satisfactory. Awards are settled in 3 cash tranches spread equally over 3 years.

Employees identified as part of the future talent succession pool may be granted RSP awards to align their interests with those of the business. Awards vest in 3 equal tranches at 3, 4 and 5 years after grant, ensuring that Capitec has a strong pipeline of future successors in place.

For other employees, the main component of TR is TGP. These employees take part in the annual performance bonus (a STI), which is subject to company performance targets (year-on-year growth in headline earnings) being achieved or exceeded. In specific business units, employees may also take part in department-specific STI programmes that have individual and/or team performance measures to drive focused production targets.

Total guaranteed pay

Element	Description
2023 financial year policy changes	No changes
Overview and positioning	**Key management and divisional executives** TGP for key management and divisional executives are informed by: • the Capitec approach to the key management and divisional executives' pay mix described above • how TGP forms part of TR at market median (or the upper quartile in instances where this is warranted). Executive directors are remunerated for services as employees of Capitec Bank. No fees are paid for their services as directors of any other companies in the group. **Other employees** All employees receive guaranteed remuneration which is reflective of their job role. TGP is typically positioned at the median of the market. However, to ensure that Capitec is able to attract and retain scarce and key critical skills as well as top talent in a competitive job market, TGP for such positions may be positioned around the 75th percentile.
Components of TGP	TGP consists of guaranteed pay as well as benefits. In line with our employer value proposition, employees are guided on package structuring, but have options which can be adapted to suit their unique circumstances. Key employee benefits include: • risk benefits • funeral cover • medical aid and health insurance • gap cover • retirement planning • discounts on loan interest.

Element	Description
Annual review and increases	As a general principle, increases (including those of key management and divisional executives) are determined by taking into account the following factors: • Performance of the individual, team and company • Competence • Forecast profitability • The outcomes of benchmarking exercises • Economic factors, including the CPI The REMCO annually reviews and approves the salary increases of each individual member of the EXCO. The REMCO is further presented with the proposed salary increase pool for all employees across Capitec, which is then reviewed and debated by the REMCO. The REMCO approves the annual salary increase pool and provides the authority to the CEO and divisional executives to distribute the increases as appropriate. Increases are typically effective from May.

Short-term incentive

Capitec's key management and divisional executives remuneration policy and pay mix provide a modest cash STI which requires considerable performance. This is in line with Capitec's policy of risk alignment and encouraging long-term vision and decision-making by this group, as opposed to short-term goal setting.

Key aspects of the STI (key management and divisional executives bonus)

Element	Description
2023 financial year policy changes	Historically, the calculation of the STI took into account factors that were linked to both group financial performance as well as certain non-financial strategic leadership initiatives. Going forward, this process has been further refined to include a clear STI participation scale linked to personal KPI results, and a clear calculation process with associated weightings linked to financial performance of the group and non-financial strategic leadership initiatives.
Eligibility	Key management and divisional executives
Overview	The key management and divisional executives bonus annual STI is designed to recognise the achievement of company financial performance measures and a combination of strategic measures linked to Capitec's overall business strategy. The STI is self-funded and settled in cash. Although the STI is uncapped, the additional amount earned for performance above target is minimal. This ensures that the STI earned remains modest when looking at the pay mix as a whole. The calculation of the overall STI pool is evaluated on headline earnings performance. The payment of the pool is, however, weighted on a scorecard basis with 70% hinged on group headline earnings performance (group financial KPI) and the remaining component is dependent on the delivery on non-financial strategic leadership initiatives (non-financial KPIs). The split between financial and non-financial KPIs in the STI calculation process and the associated weightings is assessed by the REMCO on an annual basis.

Remuneration report continued

Element	Description
Overview continued	For the 2023 financial year, the split between financial and non-financial KPIs in the calculation process and the associated weightings is outlined below.

Group financial KPI (70%)		
Group financial performance	70%	Headline earnings growth percentage
Strategic non-financial KPIs (30%)		
Strategic measures	10%	This is a holistic assessment of strategic performance for the group which includes measures such as unlocking value in the Capitec ecosystem, enhancing our financial services value proposition and driving digital transformation.
Risk and control	10%	This is a holistic assessment of risk and control performance for the group which includes measures such as maintaining optimum business and market conduct standards, proactively managing the organisational risk appetite and volatility and minimising the risk of credit loss/impairments.
ESG	10%	This is a holistic assessment of ESG performance for the group which includes measures such as accelerated B-BBEE transformation, strengthening diversity, equity and inclusion, putting in place succession plans for executive roles and reducing our environmental footprint.

Targets are set by the REMCO annually to ensure that they are truly stretching and only reward exceptional performance. At the end of the financial year, the REMCO assesses the level of financial and non-financial performance and determines the STI payment to be made to each member of key management and divisional executives. Personal performance has been an entry criterion for participation in the STI of all executives for quite some time. Personal KPIs are contracted with the REMCO by each member of key management and are continuously monitored throughout the year. Going forward, we have refined this by bringing in scaled entry criteria for each individual, based on their personal KPI scores achieved.

The following table sets out what percentage of the STI awarded to the individual from the pool will be paid out to them based on their personal KPI score achieved.

Personal KPI score (out of 5)	Less than 2	2	3 or more
% of STI paid	0%	50%	100%

Earning potential	Capitec does not have a set stretch target in place. Rather, the STI bonus pool allows for the pool that is funded based on group headline earnings to be incrementally uplifted on a sliding scale in the event of outperformance in group headline earnings relative to target which correlates directly with the percentage of STI payable. As such, the incremental uplift to the STI pool will have the following incremental knock-on effects for above-target bonuses for key management and divisional executives:

Headline earnings	Headline earnings (% of target achieved)	% of annual GRP*
Below target	<100%	–
Target	100%	33%
Above target	Tier 1: 101% – 109% of target Tier 2: 110% of target Tier 3: >110% of target	Tier 1: 33.33% plus 1.67% for every 1% of headline earnings achieved above target Tier 2: 50.83% Tier 3: 50.83% plus 0.83% for every 1% of headline earnings achieved

* *GRP is guaranteed package, excluding risk benefits.*

Payment	Cash
Termination of employment	No payment on termination of employment other than formal retirement, death, permanent disability or retrenchment. For formal retirement, 100% payment is made at the normal retirement age, as well as an early retirement (from 60 – 64 years).

Senior management performance bonus scheme

Key aspects of the senior management performance bonus scheme:

Element	Description
Eligibility	Senior management (groups A and B) and roles identified as critical to the success of the organisation (specifically excluding key management and divisional executives) are participants of the cash-settled senior management performance bonus scheme. The goal of the scheme is to motivate a medium-term strategic focus for these employees.
Overview	Participating employees receive an award consisting of the right to receive a cash amount on the vesting dates. Vesting of the award is subject to the achievement of both personal performance and company performance criteria. Following vesting, one-third of the award is settled in cash following the vesting date, with the remaining portion being deferred and settled in equal tranches in years 2 and 3, respectively. Employees have the option to elect to defer all or a portion of the deferred portion of the bonus into restricted shares in terms of the RSP (see details below) and to receive a 10% company match on the value of the bonus so deferred. The shares will similarly vest in years 2 and 3.
Performance period	1 year
Performance conditions, weightings, targets, vesting outcomes	Performance-based criteria include minimum personal performance and minimum company performance (growth in headline earnings) to qualify for an award.
Termination of employment	**Fault termination:** Forfeiture of all balances in the scheme on termination of employment other than formal retirement, death, permanent disability or retrenchment. **No fault termination:** No forfeiture applies. In addition, 75% of balances in the scheme are paid out on early retirement from 60 to 64 years and the full balance is paid at the normal retirement age of 65.

Long-term incentive

Key management and divisional executives LTI

Key aspects of the key management and divisional executives LTI:

Element	Description
2023 financial year policy changes	Following our discussions with shareholders, and as part of the transition of moving away from a binary ROE performance assessment, a tiered vesting scale was introduced for the ROE measure for awards going forward. The vesting scale will be re-evaluated annually by the REMCO. The HEPS performance measure will not be subject to a tiered vesting scale.
Eligibility	**Key management and divisional executives** Awards are fully subject to performance conditions and consist of 50% share options and 50% SARs.
Instrument	**Share options** With an option, employees are entitled, but not obliged, to purchase a number of Capitec ordinary shares at an agreed date in the future for a predetermined price. The option price is set equal to the market value of the share, being the 30-day volume-weighted average share price on the JSE immediately preceding the day on which the options are granted. The number of shares the employee can purchase is determined by company performance measures and in reference to the growth in share price above the option price over the vesting period. **Share appreciation rights** SARs operate similarly to the options detailed above in terms of option price, performance measures and vesting and exercise periods. SARs are settled in cash as opposed to equity. The amount settled is equal to the growth in share price above the option price. The SARs scheme is a simple, effective instrument and does not dilute issued share capital. SARs are granted at the same time and on the same terms (other than settlement) as the options.
Allocations	LTIs for key management and divisional executives are awarded annually as a percentage of TGP. Share options and SARs are granted equally (i.e. each 50%).
Performance period	Performance measures are assessed on a 3-year rolling average basis.*

Remuneration report continued

Element	Description
Performance conditions, weightings, targets, vesting outcomes	**Performance measures and vesting period** Beyond the minimum personal performance measures for participation (KPIs contracted with the REMCO), vesting is subject to the following company performance measures for all awards of SARs and options:

Measure	Weighting	Vesting
HEPS	50%	3-year average group HEPS growth exceeding 3-year average of CPI + GDP + 4%
ROE	50%	**Tier 1 (50% vesting)**: 3-year average group ROE** exceeding 3-year average ROE** of 4 traditional banks* by 0% **Tier 2 (full vesting):** 3-year average group ROE exceeding 3-year average ROE of 4 traditional banks* by 2%***

* *Absa, FirstRand, Nedbank and Standard Bank.*

** *Linear vesting will occur between vesting levels for ROE.*

*** *Calibrated, taking into account the future evolution and maturity of Capitec's operations.*

It is important to note that the 4% spread applicable to HEPS and the 2% spread applicable to ROE is assessed prior to the commencement of the 3-year forward-looking performance period taking into account facts, circumstances and relative assumptions appropriate at the point of award (i.e. 3 years prior to performance testing being concluded).

Capitec chose an earnings metric and a return metric (equally weighted) as company performance measures for vesting to ensure that the combination motivates key management to drive both measures as opposed to one measure at the cost of the other.

Element	Description
Vesting	After the initial 3-year financial performance period, the share options and SARs vest in years 3, 4, 5 and 6 after grant, in 25% tranches. Participants have a 6-month period after the date on which the options vest to exercise their right to purchase the shares.
Termination of employment	Fault termination: In the case of just-cause dismissal or resignation, all unvested LTIs are forfeited. No fault termination: In the case of death or ill health, the REMCO has discretion to allow automatic vesting of all unvested LTIs. The following table sets out the vesting of a LTI on retirement, subject to the REMCO's discretion:

Retirement age	Options and SARs
Before retirement (60 years)	Forfeit all non-vested options and SARs
Early retirement (60 years – 64 years)	75% of options and SARs awards will vest at the original future vesting dates
At retirement (65 years)	100% vesting of all options and SARs awards at the original future vesting dates

Element	Description
Dilution	Since the establishment of Capitec, 17.89 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these exercised options. The balance of ordinary shares required to settle options that have been exercised were acquired in the market. Shares acquired in the market for the purposes of LTI award settlement are non-dilutive, per JSE Listings Requirements Schedule 14 at 14.9(c), and shares settled through this method are therefore not considered in calculating usage against the limit. In terms of the Capitec Bank Holdings Share Trust (the Trust) deed, a maximum of 11.53 million ordinary shares may be issued for purposes of the Trust (scheme allocation), after which shareholder approval must be obtained to determine a new scheme allocation. The past dilutive effect of issues of ordinary shares, for purposes of the Trust since the inception of Capitec, remains at 5.04% of the issued ordinary share capital of Capitec as at 28 February 2022. The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 28 February 2022.

* *Note that the above table sets out the forward-looking policy with regard to LTIs. For the LTI awards made in 2019 and 2020, the 2021 financial year (COVID-19 year) will consistently be excluded from the calculation to prevent future potential windfall gains – see further explanations in Part 1, under the heading 'Shareholder engagement', and Part 3, under the heading 'Achievement of performance measures'.*

Other LTI plans

Restricted share plan (RSP)

Key aspects of the RSP:

Element	Description
Eligibility	Senior management groups A and B who have elected to defer the deferred portion of their senior management bonus into restricted shares in terms of the RSP. Capitec may also use the RSP to make awards for purposes of attracting and retaining key future talent.
Operation	In order to provide for greater alignment with shareholders and to allow participants to benefit from the success of the company, participants can elect that all or a portion of an award in terms of the senior management performance bonus scheme be delivered in Capitec restricted shares in terms of the RSP upon which election employees will receive a small company match. The RSP is used as a retention tool, offering employees in the senior groups A and B an opportunity to share in the ownership of the group and so further align these employees' interests with those of the business and our shareholders. Employees in senior management group A who are eligible to participate in the co-Investment plan may use these shares for purposes of meeting the investment condition of the co-investment plan (see details below).
Instrument	Restricted shares
Allocations	Where employees opt for shares, they will also receive a company match of 10% of the value of their award in additional restricted shares. Eligible employees in senior management group A who opt for shares in terms of the RSP for purposes of meeting the investment condition in terms of the co-investment plan will forfeit the company match.
Vesting	The shares will vest in equal tranches in years 2 and 3. The shares will be subject to a restriction on disposal for 2 years from the vesting date. In the 3rd year, participants shall be entitled to sell up to one-third, in the 4th year up to two-thirds, and in the 5th year, all of the shares. Participants receive all shareholder rights from the award date, including dividend and voting rights.
Termination of employment	**Fault termination:** In the event of an employee's resignation, abscondment or dismissal, all unvested awards will be forfeited in their entirety and lapse on termination of employment. **No fault termination:** In the case of death, retrenchment, ill health or disability, the employment condition will be deemed to have been met and all unvested awards will vest in full on the date of termination of employment unless the REMCO determines otherwise. The following table sets out the vesting of a LTI on retirement, subject to the REMCO's discretion:

Retirement age	RSP awards
Before 60 years	Forfeit all RSP awards
From 60 years to 64 years	75% of RSP awards will vest at the original future vesting dates
At 65 years	100% vesting of RSP awards at the date of termination of employment

Co-investment plan

Capitec introduced a new co-investment plan for selected senior management (excluding the current CEO and CFO), successors and key talent. The purpose of this co-investment plan is to drive a culture of ownership and to provide an element of lock-in while ensuring pay is aligned to the shareholder experience by having increased 'skin-in-the-game'. This plan will not form part of Capitec's annual LTI awards or senior management bonus. The intention is for the plan to be used to encourage and incentivise select senior management, successors and key talent to invest in the business over the next few years, whereafter the intention is for the plan to be used on an as-needed basis.

Remuneration report continued

The co-investment plan is structured in such a way as to incentivise participants to remain invested in the business over a 10-year period. The operation and salient features of this plan are set out in the table below.

Element	Description
Eligibility	Participation on a selection basis and can include members of key management (other than the CEO and current CFO), divisional executives and senior management group A.
Operation	Eligible participants are invited to participate in the co-investment plan. In order to accept the invitation, participants are required to meet the investment condition by investing their own funds in Capitec through the purchase of shares ('investment shares') in respect of which the participants then subsequently receive awards of leveraged net-settled options. The purchase of these investment shares can be done through the Capitec Employee Share Purchase Scheme by using all or a portion of an employee's STI after tax (in the case of key management and divisional executives). For senior management employees, investment shares can be acquired through the Capitec Employee Share Purchase Scheme by using the vested portion of the bonus on an after-tax basis, and/or through deferring the remaining unvested portion of the senior management bonus into RSPs which will vest as set out previously. Participants are required to retain their purchased shares over a set investment period of 3 years, failing which their award of net-settled options will be forfeited proportionally. Eligibility to participate is limited to select participants identified by Capitec on predetermined criteria.
Instrument	Leveraged net-settled option with a strike price which reduces by 5% on an annual basis over the 10-year exercise period.
Gatekeeper for entry to plan and quantum of awards	Upon the acquisition of these investment shares, participants then receive an award of leveraged net-settled options at a multiple of 3 to 4 times that of their pre-tax investment quantum. There are no sale or forfeiture restrictions applied to the investment shares, however, where a participant has disposed of the investment shares prior to the vesting of the net-settled options, the award of net-settled options will be reduced proportionately.
Reducing strike price	The strike price of unvested net-settled options will be adjusted downwards annually by 5% over a period of 10 years. This ensures that participants are incentivised to both grow the company's share price and remain invested in the co-investment plan over a longer period of time.
Vesting and exercise	The vesting of net-settled options will be subject to continued employment and the net-settled options will vest and become exercisable in 4 equal tranches on the 4th, 6th, 8th and 10th anniversaries from the award date. Following vesting, participants have until the 10th anniversary of the award date to exercise their SARs. The strike price reduction applicable at exercise is determined with reference to the number of complete years which have passed from the award date.
Termination of employment	If the participant's employment terminates before the vesting date of an award, all unvested SARs will be forfeited upon such termination. Where employment is terminated after the vesting date of an award, participants may exercise all vested SARs before the end of the relevant notice period. To the extent that a SAR is not exercised during this period, it will lapse.
Lifespan of plan	The co-investment plan is not intended for long-term use or for making annual awards. It is proposed to make 3 to 4 awards in terms of this plan whereafter the plan can be used on an as-needed basis.
Dilution	Exercised options will be settled in Capitec shares which will be purchased on the market. The co-investment structure is therefore not dilutive to shareholders.

Alignment of remuneration with risk

The REMCO forms part of the formal risk governance framework and its charter mandates it to assess the appropriateness of the risk/reward relationship in remuneration structures. The REMCO is guided by the following:

- Inherent risks in the business model
- The risk-taking and delegation structure
- The status of the risk barometer as an indicator of the existence and management of risk.

The REMCO reviews variable remuneration and incentive plans to ensure that they are based on a measurable end result.

Malus and clawback

The REMCO has adopted a malus and clawback policy with a view to further align the interests of executive directors with the long-term interests of Capitec and all its stakeholders and to ensure that excessive risk-taking is mitigated. The malus and clawback policy applies to all key management, divisional executives and senior management group A participants and is applicable to all prospective STI and LTI awards.

Following recommendations from the REMCO, the board may act to adjust (malus) or recover (clawback) any STI or LTI paid/settled on the occurrence of a trigger event. Trigger events include (but are not limited to):

- material misstatement of financial statements
- dishonesty, fraud or gross misconduct.

Executive director and key management agreements

Executive directors and other members of key management do not have fixed-term or bespoke key management agreements, but are employed in terms of the group's standard employment agreement. For all members of key management and divisional executives, the notice period for termination of service is 3 months. Normal retirement age ranges from 60 to 65 years, unless the board requests to extend this term.

No additional payments are made to key management upon termination of employment (apart from those required in terms of labour legislation).

Upon termination of employment, all STIs are forfeited. Unvested LTIs will be treated in accordance with the LTI policy (refer to page 116, termination of employment and effect on an unvested LTI).

Risk and compliance employees' remuneration

Remuneration levels and structures for risk and compliance employees are determined as part of the annual budget process and are subject to oversight by the REMCO. This happens independently of the relevant risk departments.

The audit committee ensures that these employees are correctly and fairly remunerated. During the year under review, Capitec introduced a further measure in the form of a bonus cap to ensure that the remuneration of employees in internal audit roles is in line with best practice. Bonuses for internal audit employees are capped at 500% of an employee's monthly salary (41.67% of their annual salary).

Minimum shareholding requirements (MSRs)

MSRs expose key management to the same risks and rewards faced by Capitec's shareholders. Capitec's key management voluntarily hold an outright share ownership (through direct shareholding and not unvested LTIs) that is not less than the value of the following proportion of their respective TGP as at 28 February 2022:

Position	Minimum holding in proportion to TGP %
CEO	300
CFO	300
Key management	100

The minimum holding should be retained until termination of employment. The percentage shareholding should be achieved within 5 years from 1 March 2016 or within 5 years of a key management appointment. With all key management having achieved the MSR within this period, with the executive directors' value disclosed in Part 3 of this report, the MSR will remain in place.

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director fees

Non-executive director remuneration is based on a fixed-fee structure not related to meeting attendance. The chairman of the board is paid a retainer and receives no further payment for committee membership. Board members receive a retainer for board membership and for each board committee on which they serve. No fee is paid for members of the DAC.

Non-executive directors do not qualify for any STI.

No new LTI allocations are made to non-executive directors, however, previous tenure as a member of key management may result in legitimate vesting of a previously awarded LTI. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

Proposed 2023 financial year non-executive director fees

Towards the end of the 2022 financial year, Capitec conducted an external benchmarking exercise against a comparator group of companies as part of reviewing the non-executive director fees. The same comparator group was used as for the executive directors, as set out on page 109.

The benchmarking concluded that a number of the NED fees still remain out of line with the median of the market (see table below).

The consequential adjustment in fees for the 2023 financial year therefore serves to provide market alignment between the non-executive directors' responsibilities and risks of peer NEDs operating in comparable industries to Capitec. The adjustments are part of a stepped approach towards bringing all of the positions in closer proximity to the median of the comparator group, while capping annual increases at a maximum of 30% and only adding inflationary increases to the other positions. While it is noted that the increases represent a meaningful adjustment in some instances, the board believes it is necessary to ensure the continued attraction of suitable talent.

The following proposed 2023 financial year non-executive director fees will be tabled for approval by shareholders (in terms of the Companies Act) at the AGM to be held on 27 May 2022. Refer to special resolution number 1 in the notice of annual general meeting.

Directors' fees	2022 R	Change %	2023 R	Market median R
Chairman of the board	3 250 000	30	4 225 000	5 047 000
Lead independent director	300 000	6	318 000	317 557
Directors	475 000	6	502 000	500 100
Chairman of the audit committee	585 000	28	750 000	749 031
Audit committee member	260 000	17	305 000	304 628
Chairman of the DAC	—	—	—	—
DAC member	—	—	—	—
Chairman of the RCMC	475 000	16	553 000	552 448
RCMC member	250 000	6	264 000	341 793
Chairman of the REMCO	370 000	6	391 000	387 873
REMCO member	174 000	6	184 000	182 255
Chairman of the SESCO	253 000	30	329 000	342 954
SESCO member	105 000	30	136 000	139 577
Subcommittee of the board	73 500	6	77 600	—

Part 3: Implementation report

This part of the report provides insight into the implementation of our remuneration policy during the year ended 28 February 2022.

It details the remuneration paid to both executive directors and non-executive directors, in particular:

- the TGP increases approved in line with the Capitec TR policy approach
- STI performance versus the targets set
- the LTI awards granted in the reporting year to eligible employees ensuring continued retention and alignment with shareholders' interests and the pay-for-performance philosophy
- the LTI awards vesting in the reporting year
- the fair value of unvested LTI awards remaining, which demonstrated alignment between executive directors and shareholders' interests
- an overview of the incremental TR growth over the past 5 years compared to some key financial metrics (being the value added to shareholders in terms of metrics such as headline earnings, ROE and share price growth)
- a single remuneration figure for the value of actual TGP paid, STI paid and any LTIs vesting in the 12 months following year-end
- the executive directors' shareholding compared to MSRs
- the non-executive director fees paid to individuals for their services as board and committee members as approved by shareholders.

Total guaranteed pay

In light of the impact of and uncertainty brought about by the COVID-19 pandemic, it was decided not to make any adjustments to the guaranteed pay of executive directors for the 2021 financial year. For employees below executive level, the decision was taken to award increases on a sliding scale in order to minimise the negative financial impact on and ensure the well-being of our more vulnerable employees.

Following careful deliberation as to the strong performance of the executive directors in executing on our strategic priorities and in safeguarding both shareholder interests and those of our clients, the REMCO decided to proceed with making market adjustments to the TGP of executive directors for the 2022 financial year to bring them in line with the median of the market.

Executive directors	2022 R	2021 R	Change %
GM Fourie*	15 000 000	13 000 000	15
AP du Plessis**	10 914 971	10 106 455	8
NS Mashiya***	6 360 000	6 000 000	6

* *Mr GM Fourie received no increase for the 2021 financial year. As such, his increase in the 2022 financial year is reflective of an increase covering a 2-year period, further adjusted based on the solid performance of the company in the current tough economic conditions.*

** *Mr AP du Plessis received no increase for the 2021 financial year. As he is set to retire in the 2023 financial year, his increase for the 2022 financial year has been adjusted to take the remaining number of months of his tenure into account.*

*** *Mr NS Mashiya received a substantial adjustment to his TGP in the 2021 financial year as a step towards aligning his remuneration with the market, taking into account his increased responsibilities driven by the growth in the regulatory and risk management demands on the group (refer to our 2021 financial year remuneration report). As such, his increase for the 2022 financial year takes into account the fact that he did receive an increase for the 2021 financial year as well as the fact that his TGP has previously been aligned to the market.*

Short-term incentive

In terms of our remuneration policy, a small proportion of key management/divisional executive remuneration is delivered through the STI which is determined based on the audited percentage target achieved of group annual headline earnings and non-financial strategic initiatives. In order for a member of key management to receive a STI, the group headline earnings target must have been achieved. Capitec does not have a set stretch target in place. Rather, the STI bonus pool allows for the pool to be incrementally uplifted on a sliding scale in the event of outperformance in group headline earnings relative to target which correlates directly with the percentage of the STI payable. As noted above, Capitec performed strongly during financial year 2022 and delivered headline earnings of R8.440 billion which is 118.3% of target.

The REMCO reviewed the personal performance of key management with regard to the non-financial strategic initiatives, which included measures in respect of efficiency, business delivery, diversification of income stream, people,

Remuneration report continued

quality clients, innovative digital and data and service experience and is satisfied with each member of key management's performance. As such, no downward adjustment was made to the STI.

The table below sets out an overview of the sliding scale used to determine the STIs payable in respect of the headline earnings target achieved.

	Performance targets			Actual
	Below target %	Target %	Above target %	performance %
Headline earnings (% of target achieved)	<100.00	100.00	**Tier 1:** 101% – 110% of target **Tier 2:** 110% of target **Tier 3:** >110% of target	118.30
% of annual GRP	–	33.30	**Tier 1**: 33.3% plus 1.7% for every 1% of headline earnings achieved above target **Tier 2:** 50.8% **Tier 3:** 50.8% plus 0.8% for every 1% of headline earnings achieved above 110% of target	55.40

Linear interpolation applies between performance levels.

STI outcomes

Key management	TGP R'000	% payable as a STI	STI payable R'000
GM Fourie	15 000	55.4	8 313
AP du Plessis	10 915	55.4	6 049
NS Mashiya	6 360	55.4	3 525

Long-term incentive

The following section sets out details of the instruments granted during the year, instruments vesting during the year (included in the single-figure table) and instruments that remain unvested at the end of the financial year. For instruments exercised during the year, we set out the cash value received on exercise.

LTI awards granted in the reporting year

In line with our remuneration policy as set out in Part 2 (page 115), grants of options and SARs were made to executive directors during the year. Options and SARs are subject to the performance measures set out on page 124. Details of the number of shares and the options price are set out in the unvested awards table on pages 125 and 126.

LTI awards vesting in the reporting year

For the financial year ended 28 February 2022, Capitec only has options and SARs with performance measures vesting. Performance measures were introduced for all LTIs granted from 2016 onwards. All awards vest in equal tranches in years 3, 4, 5 and 6. Capitec has reviewed the methodology set out in the King IV™ guidance notes issued by the South African Reward Association (SARA) and the Institute of Directors South Africa (IoDSA).

For options and SARs that have performance measures, the guidance notes suggest that the value of options and SARs is included in the single-figure table at the year-end aligned with when the performance period ends. As Capitec uses tranche vesting, there is a significant timing misalignment between the end of the performance period (3 years) and the achievement of the employment condition and resultant vesting (years 3, 4, 5 and 6). For this reason, the REMCO has taken the decision to report the value in the single-figure table in respect of the options and SARs that are due to vest within 12 months of the financial year-end as it accurately reflects the economic value to participants at the time of vesting.

Achievement of performance measures

All executive directors achieved their personal performance targets over the reporting year.

In evaluating the company's performance for the 2019 LTI award, which performance vests at the end of financial year 2022, and taking into account the macroeconomic impact which COVID-19 had on the GDP outcome, the REMCO critically evaluated how the HEPS KPI should be measured. Currently, the HEPS KPI is measured in a binary format on a 3-year rolling basis, with the targets set relative to CPI + GDP + 4%. As a consequence of the negative GDP delivery for financial year 2021 (i.e. an effective decline of GDP of ~7%), the REMCO evaluated how it can sustain the principle of fair and responsible pay to both shareholders and key management and divisional executives in assessing the 2019 award's performance outcome. Consequently, a decision was taken to measure the March 2019 award's performance over the 3-year performance period (ending financial year 2022), both including and excluding the anomalous GDP outcome for financial year 2021. In both circumstances, the binary HEPS performance condition was met, albeit that in the scenario that excludes the negative GDP of the 2021 financial year, a similar approach was taken to exclude Capitec's 2021 financial year HEPS performance in assessing the 3-year rolling outcome.

In both circumstances, the binary HEPS performance condition was met, albeit that in the scenario that excludes the negative GDP of financial year 2021, a similar approach was taken to exclude Capitec's financial year 2021 HEPS performance in assessing the 3-year rolling outcome.

Calculation scenario including financial year 2021

	Performance			
	2019	2020	2021	2022
Group headline earnings (R'bn)	5.292	6.277	4.586	**8.440**
Year-on-year (%)	18.6	18.6	(26.9)	**84.0**
3-year rolling average (%)				**25.2**

	Target: CPI + GDP + 4%			
	2019	2020	2021	2022
CPI (%)	4.6	4.1	3.3	**5.7**
GDP (%)	0.8	0.2	(7.0)	**4.9**
+ 4 (%)	4.0	4.0	4.0	**4.0**
Total (%)	9.4	8.3	0.3	**14.6**
3-year rolling average (%)				**7.7**
Performance minus target (%)				**17.5**
Condition met or not met				Met

Calculation scenario excluding financial year 2021

	Performance			
	2019	2020	2021	2022
Group headline earnings (R'bn)	5.292	6.277	Excluded	8.440
Year-on-year (%)	18.6	18.6	Excluded	16.0*
Adjusted rolling average (%)				17.3**

* *Calculated as the growth from 2020 to 2022 over a 2-year period.*
** *Calculated as the average of the 2020 and 2022 financial years.*

	Target: CPI + GDP + 4%			
	2019	2020	2021	2022
CPI (%)	4.6	4.1	Excluded	**5.7**
GDP (%)	0.8	0.2	Excluded	**4.9**
4 (%)	4.0	4.0	Excluded	**4.0**
	9.4	8.3	Excluded	**14.6**
Adjusted rolling average				**11.5***
Performance minus target				**5.8**
Condition met or not met				Met

* *Calculated as the average of 2020 and 2022.*

Following this exercise, the REMCO has made a principle decision that, for the awards vesting going forward, the financial year 2021 results will be eliminated from both the 3-year rolling target-setting basis and in the evaluation of Capitec's 3-year rolling HEPS performance delivery. The table below sets out the vesting performance measures for the March 2019 options and March 2019 SARs.

Performance measure	Weighting %	Performance target	Actual performance %	Actual vesting %
HEPS	50	Growth exceeding CPI + GDP + 4% Target: 14.6%*	84	50
ROE	50	Outperform the average ROE of the big 4 traditional banks in South Africa Target: 14.9%*	26	50
Total				**100**

* *The calculation used the latest result whether final or interim at 28 February 2022.*

Key management LTIs are aimed at driving company performance and share price growth over the long term, with the LTI outcomes being directly linked to the growth in Capitec's share price, with employees only receiving the growth in share price above the strike price. In addition to meeting both the ROE and HEPS performance targets in full, Capitec also delivered an outstanding share price growth of 52% over the performance period above the strike price of R1 175.01 which is reflected in the LTI outcomes set out in the table below. The table below sets out the resultant number of shares available for vesting based on the achievement of performance measures.

Executive	Type of instrument	Shares awarded	Performance condition achievement %	Strike price R	Number of shares vesting
GM Fourie	Options	20 428	100	1 175.01	20 428
	SARs	20 428	100	1 175.01	20 428
	Total				**40 856**
AP du Plessis	Options	12 705	100	1 175.01	12 705
	SARs	12 705	100	1 175.01	12 705
	Total				**25 410**
NS Mashiya	Options	3 509	100	1 175.01	3 509
	SARs	3 509	100	1 175.01	3 509
	Total				**7 018**

The table below sets out details of the value of awards included in the single-figure table on page 127. We used a year-end share price of R2 074.35.

Executive	Type of instrument	2017 awards R'000	2018 awards R'000	2019 awards R'000	2020 awards R'000	Value of shares included in single-figure table R'000
GM Fourie	Options	14 682	8 726	6 844	4 593	34 845
	SARs	14 682	8 726	6 844	4 593	34 845
	Total					**69 690**
AP du Plessis	Options	8 975	5 375	4 508	2 857	21 715
	SARs	8 975	5 375	4 508	2 857	21 715
	Total					**43 430**
NS Mashiya	Options	3 118	1 851	1 416	790	7 175
	SARs	3 118	1 851	1 416	790	7 175
	Total					**14 350**

LTI unvested awards

The following table sets out the unvested instruments remaining for each executive director. It includes a calculation of the indicative value of unvested instruments at the end of the 2021 financial year and a calculation of the cash value of instruments exercised in the 2022 financial year. The methodology used in determining these values is in line with the guidance notes issued by SARA and the IoDSA.

Before studying the table, it is important to consider the following:

- The first grant with performance measures applicable was made in April 2016 (financial year 2017) and the first tranche vested in April 2019
- As such, the table sets out the awards which vested in respect of this first tranche as well as the number of awards which lapsed following the testing of the performance measures
- The indicative value of unvested instruments is an estimated value and is not an actual reflection of the value of the award that will vest in future
- The cash value of instruments exercised in the year represents the gain made on the exercise of instruments during the year
- The indicative value of unvested instruments and the cash value of instruments exercised in the year should not be added together.

Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number exercised in the year	Share price at which instruments were exercised R	Cash value of instruments exercised in the year R'000
	A	B	C	D = A-C	E	F	G	H = F X (G-B)
GF Fourie								
Options								
2015	18 330	196.43	18 330	–	–	–	–	–
2016	91 487	371.88	91 487	–	–	–	–	–
2017	36 677	473.05	27 508	9 169	23 182	9 169	1 560.00	9 966
2018	25 507	705.93	12 754	12 754	21 875	6 377	1 560.00	5 446
2019	22 957	881.76	5 740	17 217	23 824	5 740	1 560.00	3 893
2020	20 428	1 175.01	–	20 428	20 121	–	–	–
2021	26 703	973.05	–	26 703	31 640	–	–	–
2022	**21 681**	**1 392.19**	**–**	**21 681**	**21 365**	**–**	**–**	**–**
SARs								
2015	6 225	0.01	6 225	–	–	–	–	–
2016	31 106	0.01	31 106	–	–	–	–	–
2017	36 677	473.05	27 508	9 169	23 182	9 169	1 686.48	11 126
2018	25 507	705.93	12 754	12 754	21 875	6 377	1 686.48	6 253
2019	22 957	881.76	5 740	17 217	23 824	5 740	1 686.48	4 619
2020	20 428	1 175.01	–	20 428	20 121	–	–	–
2021	26 703	973.05	–	26 703	31 640	–	–	–
2022	**21 681**	**1 392.19**	**–**	**21 681**	**21 365**	**–**	**–**	**–**

Remuneration report continued

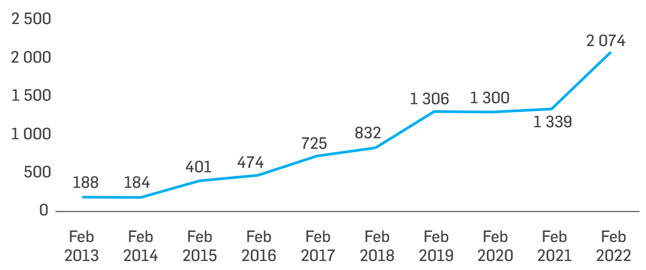
Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number exercised in the year	Share price at which instruments were exercised R	Cash value of instruments exercised in the year R'000
	A	B	C	D = A-C	E	F	G	H = F X (G-B)
AP du Plessis								
Options								
2015	23 746	196.43	23 746	–	–	–	–	–
2016	69 454	371.88	69 454	–	–	–	–	–
2017	22 420	473.05	16 815	5 605	14 171	5 605	1 495.85	5 733
2018	15 714	705.93	7 858	7 856	13 477	3 929	1 495.85	3 104
2019	15 121	881.76	3 781	11 340	15 692	3 781	1 495.85	2 322
2020	12 705	1 175.01	–	12 705	12 514	–	–	–
2021	16 608	973.05	–	16 608	19 679	–	–	–
2022	**12 621**	**1 392.19**	**–**	**12 621**	**12 437**	**–**	**–**	**–**
SARs								
2015	8 065	0.01	8 065	–	–	–	–	–
2016	23 614	0.01	23 614	–	–	–	–	–
2017	22 420	473.05	16 815	5 605	14 171	5 605	1 495.85	5 733
2018	15 714	705.93	7 858	7 856	13 477	3 929	1 495.85	3 104
2019	15 121	881.76	3 781	11 340	15 692	3 781	1 495.85	2 322
2020	12 705	1 175.01	–	12 705	12 514	–	–	–
2021	16 608	973.05	–	16 608	19 679	–	–	–
2022	**12 621**	**1 392.19**	**–**	**12 621**	**12 437**	**–**	**–**	**–**
NS Mashiya								
Options								
2016	35 500	539.88	35 500	–	–	–	–	–
2017	7 791	473.05	5 844	1 947	4 924	1 948	1 390.43	1 787
2018	5 414	705.93	2 708	2 706	4 643	1 354	1 390.43	927
2019	4 749	881.76	1 188	3 561	4 928	1 188	1 390.43	604
2020	3 509	1 175.01	–	3 509	3 456	–	–	–
2021	4 587	973.05	–	4 587	5 435	–	–	–
2021	6 287	908.58	–	6 287	5 776	–	–	–
2022	**5 883**	**1 392.19**	**–**	**5 883**	**5 797**	**–**	**–**	**–**
SARs								
2016	12 000	0.01	12 000	–	–	–	–	–
2017	7 791	473.05	5 844	1 947	4 924	1 948	1 390.43	1 787
2018	5 414	705.93	2 708	2 706	4 643	1 354	1 390.43	927
2019	4 749	881.76	1 188	3 561	4 928	1 188	1 390.43	604
2020	3 509	1 175.01	–	3 509	3 456	–	–	–
2021	4 587	973.05	–	4 587	5 435	–	–	–
2021	6 287	908.58	–	6 287	5 776	–	–	–
2022	**5 883**	**1 392.19**	**–**	**5 883**	**5 797**	**–**	**–**	**–**

Key management value creation

As noted above, the key management LTIs are aimed at driving company performance and share price growth over the long term, with the LTI outcomes being directly linked to the growth in Capitec's share price, and employees only receiving the growth in share price above the strike price. The graph on the right provides an overview of Capitec's steady and continuous share price growth delivery over the past 10 years and highlights the strong growth in the share price over the 2022 financial year. This growth is reflected in the LTI outcomes included in the previous LTI tables and in the single-figure table below.

The table below compares the headline earnings of Capitec over the past 6 years with the total executive remuneration paid in each respective year. The REMCO is satisfied that the level of executive pay as a proportion of headline earnings is reasonable, especially when one considers the value created for investors over the period in comparison to the incremental total executive remuneration increase over the same period. Note that the value included below in respect of total executive remuneration differs from that in the single-figure table as it uses the fair value at grant for LTIs rather than the indicative value of awards that have vested.

CAPITEC HOLDINGS LIMITED SHARE PRICE



	Headline earnings R'm	Total key management remuneration R'm	Remuneration as % of headline earnings	ROE %
2022	**8 440**	**140**	**2**	**26**
2021	4 586	104	2	17
2020	6 277	105	2	28
2019	5 292	109	2	28
2018	4 461	88	2	27
2017	3 793	90	2	27
Value created over 5-year period versus remuneration cost differential	**4 647**	**50**		

* *Includes all key management TGPs, STIs and LTIs at fair value granted during the year and measured on the reporting date.*

Executive director single figure

The following table illustrates a single remuneration figure for the value of guaranteed pay, benefits, STIs and LTIs. The corresponding value for the preceding year is included.

Executive directors R'000	Guaranteed pay	Benefits	TGP	STI	LTI	TR for the year
2022(1)						
GM Fourie	**14 667**	**99**	**14 766**	**8 313**	**69 690**	**92 769**
AP du Plessis	**10 780**	**94**	**10 874**	**6 049**	**43 430**	**60 353**
NS Mashiya	**6 300**	**75**	**6 375**	**3 525**	**14 350**	**24 250**
Total	**31 747**	**268**	**32 015**	**17 887**	**127 470**	**177 372**
2021(2)						
GM Fourie	13 000	90	13 090	4 333	31 800	49 223
AP du Plessis	10 106	85	10 191	3 369	19 764	33 324
NS Mashiya	5 214	59	5 273	2 000	6 722	13 995
Total	28 320	234	28 554	9 702	58 286	96 542

(1) *The LTI included in the single figure takes into consideration both the delivery on the underlying ROE and HEPS performance measures, and the significant growth in Capitec's share price from date of award up to the end of the 2022 financial year.*

(2) *Based on Guidance Note 4 of 2020 issued by the PA, the STI accrued to executive directors for 2020 was not paid during the 2020 financial year despite the fact that targets were met both in terms of Capitec's performance and the executive directors' personal KPIs. Further to the release of Guidance Note 3 of 2021, the REMCO approved payment of this STI to executives in 2021.*

Remuneration report continued

Executive director shareholding

In the 2017 financial year, the REMCO introduced MSRs for executive directors and other key management (see the related section under Part 2: Remuneration philosophy and policy on page 119).

The REMCO is satisfied that the CEO, CFO and executive: risk management continue to meet their MSRs and exhibit a strong buy-in to the principle of alignment with shareholder interests.

The percentage shareholding as at financial year-end is:

Position	% of TGP
CEO	12 031
CFO	14 228
Executive: risk management	503

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director actuals (as approved at the previous AGM)

Non-executive directors received no other remuneration or benefits beside directors' fees. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

For the financial year, non-executive director fees were as follows (excluding any reimbursement and VAT):

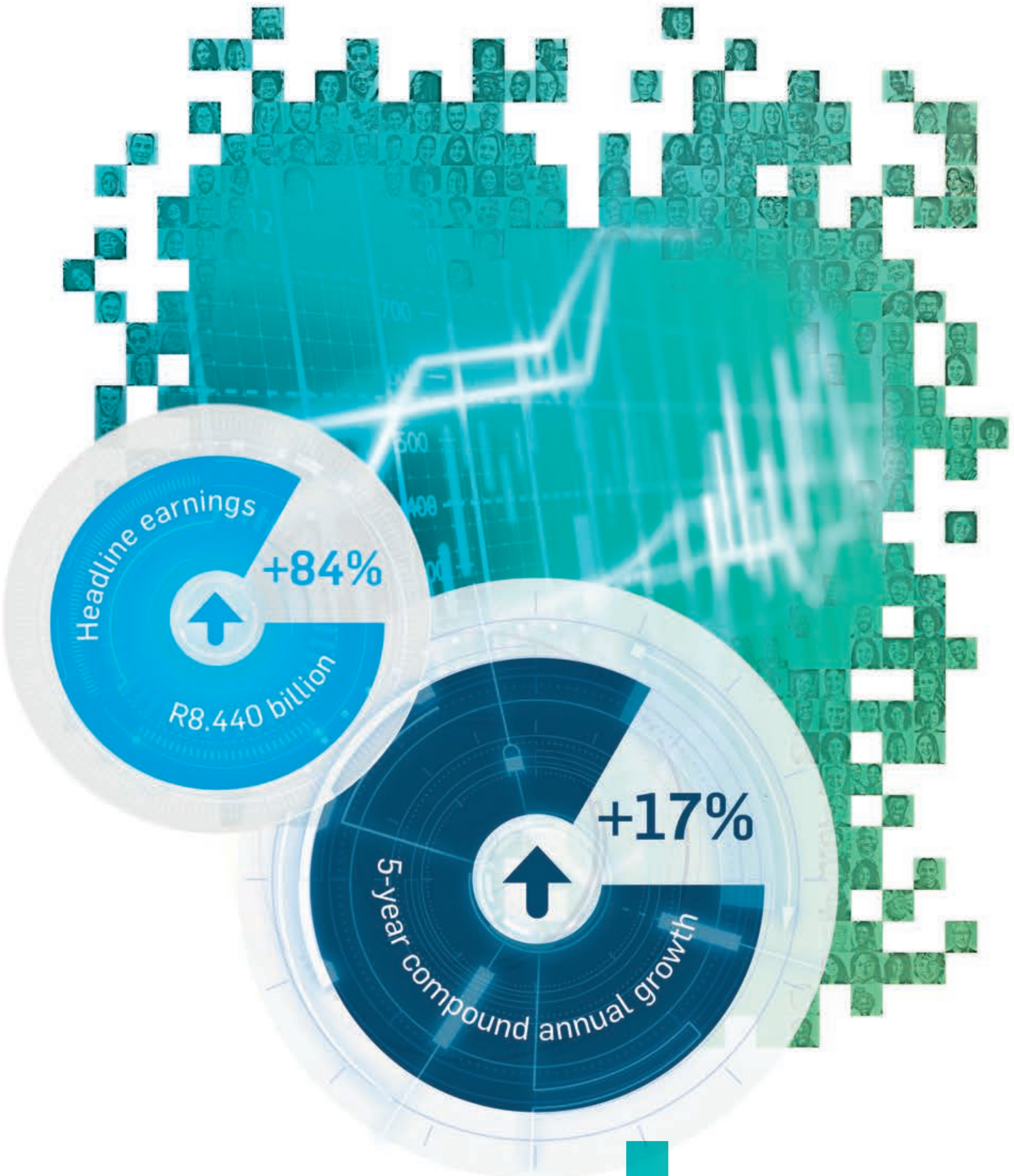
Non-executive directors R'000	2022	2021	Change %
SL Botha *(chairman)*	**3 250**	2 500	30
SA du Plessis[(1)]	**1 210**	282	329
MS du Pré le Roux	**549**	520	6
CH Fernandez[(1)]	**735**	282	161
V Mahlangu[(1)]	**1 199**	282	325
K Makwane[(2)]	**—**	371	n/a
TE Mashilwane[(3)(4)]	**988**	729	36
JD McKenzie[(5)]	**219**	1 550	(86)
DP Meintjes	**950**	880	8
PJ Mouton	**799**	720	11
CA Otto	**973**	870	12
JP Verster	**1 310**	1 100	19
Total	**12 182**	10 086	21

(1) Appointed on 25 September 2020.
(2) Resigned on 25 September 2020.
(3) Appointed on 6 March 2020.
(4) Appointed as chairman of the SESCO on 25 September 2020.
(5) Retired on 28 May 2021.

Remuneration analysis

	Unit	Executive management[(1)]	Senior management	Other employees	Total	Financial statements reference
Employees	number	8	156	14 594	14 758	
Remuneration awards						
Fixed	R'000	**66 836**	**280 073**	**4 153 335**	**4 500 244**	
Cash remuneration	R'000	66 836	280 073	4 153 335	4 500 244	Note 27
Variable	R'000	**73 052**	**550 022**	**859 943**	**1 483 017**	
Cash employee performance bonus	R'000	38 113	29 147	859 943	927 203	
Cash senior management bonus	R'000	—	252 682	—	252 682	
Share options	R'000	17 014	37 258	—	54 272	Note 27
SARs	R'000	17 925	230 935	—	248 860	Note 27
Variable remuneration						
Employees receiving awards	number	8	156	14 594	14 758	
Non-deferred	R'000	38 113	121 519	859 943	1 019 575	
Deferred	R'000	34 939	428 503	—	463 442	
Outstanding deferred remuneration	R'000	**379 570**	**400 709**	—	**780 279**	
Cash senior management bonus	R'000	—	193 655	—	193 655	Note 21
Share options	R'000	140 970	84 426	—	225 396	Note 40
SARs	R'000	238 600	122 628	—	361 228	Note 41
Deferred remuneration paid out	R'000	**101 227**	**94 076**	—	**195 303**	
Cash senior management bonus	R'000	—	63 592	—	63 592	
Share options	R'000	47 007	11 363	—	58 370	
SARs	R'000	54 220	19 121	—	73 341	
Employees' exposure to adjustments	R'000	**379 570**	**400 709**	—	**780 279**	
Implicit adjustments	R'000	379 570	184 764	—	564 334	
Post explicit adjustments	R'000	—	215 945	—	215 945	
TR exposed to adjustments	R'000	**379 570**	**400 709**	—	**780 279**	
Implicit adjustments	R'000	379 570	184 764	—	564 334	
Post explicit adjustments	R'000	—	215 945	—	215 945	
Reductions due to post explicit adjustments	R'000	—	—	—	—	

(1) Executive management is defined as the 8 members of EXCO excluding the 2 annually elected development members.



annual financial statements

The preparation of the Capitec Bank Holdings Limited consolidated and separate annual financial statements was supervised by the CFO, André du Plessis CA(SA).

Directors' responsibility statement

Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group)

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec, comprising the statements of financial position as at 28 February 2022, the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and the notes to the annual financial statements which include a summary of significant accounting policies and other explanatory notes.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, the Banks Act, Act 94 of 1990 (Banks Act) and the requirements of the Companies Act, Act 71 of 2008 (Companies Act).

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group and company at year-end.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the annual financial statements comply with relevant legislation.

Capitec operates in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled. The executive directors and management of Capitec are responsible for the controls over, and the security of the website, and, specifically, for establishing and controlling the process for electronically distributing annual reports and other financial information to shareholders.

The consolidated annual financial statements were prepared on a going concern basis. Based on their assessment, the directors have no reason to believe that the group or any company in the group will not continue as a going concern in the foreseeable future. The viability of the group is supported by the annual financial statements.

The directors also prepared the directors' report and the other information included in the integrated annual report and are responsible for both its accuracy and consistency with the annual financial statements.

The group adhered to the Code of Corporate Practices and Conduct.

The group's external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche (Deloitte), audited the annual financial statements and their report is presented on pages 137 to 143.

The annual financial statements set out on pages 144 to 278 were approved by the board of directors and signed on its behalf on 12 April 2022 by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Chief executive officer's and chief financial officer's responsibility statement

We, the directors, whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 144 to 278, fairly present, in all material respects, the financial position, financial performance and cash flows of the issuer in terms of IFRS
- no facts have been omitted, or untrue statements made, that would make the annual financial statements false or misleading
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries has been provided to effectively prepare the annual financial statements of the issuer
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors and have taken the necessary remedial action.

Gerrie Fourie
Chief executive officer

André du Plessis
Chief financial officer (CFO)

12 April 2022

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec, that for the year ended 28 February 2022, the company has filed all required returns and notices in terms of the Companies Act, and that all such returns and notices are to the best of my knowledge and belief true, correct and up-to-date.

Yolande Mouton
Company secretary

12 April 2022

Audit committee's report

Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group)

The Capitec audit committee (the committee) is an independent statutory committee appointed by the board of directors in terms of section 64 of the Banks Act and section 94 of the Companies Act, to the extent applicable.

The committee comprises 4 independent non-executive directors. The members possess the necessary experience and expertise to direct the committee in the execution of its duties. The committee met 3 times during the year with 92% attendance by members at the meetings.

The committee's responsibilities include statutory duties in terms of the Companies Act, as well as responsibilities assigned to it by the group's board of directors. The committee's terms of reference are set out in a board-approved charter and are detailed in the corporate governance review.

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter for the year ended 28 February 2022.

The committee performed the following statutory duties during the year under review:

- Satisfied itself that the external audit firms and designated audit partners are independent of the group or any company in the group, as set out in section 94(8) of the Companies Act and are suitable for reappointment by considering, *inter alia*, the latest Independent Regulatory Board for Auditors inspection findings report and information stated in paragraph 22.15(h) of the JSE Listings Requirements
- Satisfied itself that the appointment of the auditors complied with the Companies Act and any other legislation relating to the appointment of auditors
- In consultation with executive management, agreed to the auditors' engagement letter, terms, audit plan and budgeted fees for the 2022 financial year
- Approved the nature and extent of non-audit services that the external auditors may provide and confirmed that the non-audit services did not compromise the external auditors' independence
- Nominated for election at the annual general meeting (AGM), PWC and Deloitte as the external audit firms
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditors and internal auditors, that the system of internal financial controls of all the companies included in the consolidated annual financial statements, is effective and forms a basis for the preparation of reliable financial statements
- Reviewed the accounting policies and the consolidated annual financial statements for the year ended 28 February 2022 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Companies Act, Code of Corporate Practices and Conduct and IFRS
- Undertook the prescribed functions in terms of section 94(7) of the Companies Act on behalf of the subsidiary companies of the group
- Approved the key audit matters
- Satisfied itself as to the performance and quality of external audit after due consideration and with reference to the audit quality indicators.

The committee performed the following duties assigned by the board during the year under review:

- Considered the information as disclosed in the integrated annual report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 8 April 2022, recommended the integrated annual report for approval by the board of directors
- Satisfied itself that the group's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties
- Approved the internal audit charter and the annual internal audit plan
- Considered the 3 internal audit reports and noted the annual conclusion on the adequacy and effectiveness of the system of internal controls, risk management and governance
- Reviewed the reports from the external auditors and reported on the findings at board meetings
- Satisfied itself, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, that appropriate financial reporting procedures exist and are working, including consideration of all the entities included in the consolidated annual financial statements
- Met with the external auditors and with the heads of the internal audit function and compliance function without management being present
- Satisfied itself, in terms of JSE Listings Requirement 3.84(g)(i), that the group financial director has appropriate expertise and experience.

Jean Pierre Verster
Chairman of the audit committee

12 April 2022

Directors' report

To the shareholders of Capitec Bank Holdings Limited (Capitec or the group)

The directors present their report to shareholders for the year ended 28 February 2022.

Nature of the business

Capitec was incorporated in South Africa on 23 November 1999 and registered as a bank controlling company, as envisaged by the Banks Act on 29 June 2001. Capitec was listed on the JSE on 18 February 2002.

The company holds 100% of its principal subsidiaries, Capitec Bank Limited and Capitec Ins Proprietary Limited. Capitec Bank Limited is a leading South African retail and business bank which focuses on essential banking services and provides innovative savings, transacting and lending products to individuals and small- and medium-sized businesses. The cell captive arrangements, which were transferred to Capitec Ins Proprietary Limited by Capitec Bank Limited effective 31 March 2021, enable Capitec Ins Proprietary Limited to provide long-term insurance products to Retail bank clients.

Review of operations

The operating results and the state of affairs of the company and the group are fully disclosed in the annual financial statements and commentary is provided in the Review by the Chairman and Chief Executive Officer, and the Report from the Chief Financial Officer, which are included in the integrated annual report.

Ordinary and preference shares issued

The number of ordinary shares issued during the year amounted to 472 852 (2021: Nil). The number of shares in issue amounted to 116 099 843 (2021: 115 626 991). No ordinary shares were repurchased during the year.

No preference shares were issued during the year.

A total of 49 555 (2021: 193 402) preference shares were repurchased.

Dividends to shareholders

The following dividends were declared for the current and previous year:

	Dividends per share (cents) 2022	Dividends per share (cents) 2021
Ordinary dividend		
Interim	**1 200**	–
Final	**2 440**	1 600
Special dividend	**1 500**	–
Preference dividend		
Interim	**294.05**	326.30
Final	**296.91**	289.26

The final ordinary dividend for 2022 was approved by the directors on 11 April 2022.

The directors performed the solvency and liquidity tests required by the Companies Act.

A special dividend of 1 500 cents per share was declared on 11 April 2022. No special dividend was declared or paid during 2021. The distribution is made from income reserves and exchange control approval has been obtained.

Subsidiaries, associates and joint ventures

Information relating to the company's financial interest in its subsidiaries, associates and joint ventures is presented in the notes to the annual financial statements.

Transfer of Capitec Bank Limited's shareholding in the insurance cell captives to Capitec Ins Proprietary Limited

Capitec Bank Limited transferred its shareholding in the insurance cell captive arrangements with Centriq Life Insurance Company Limited and Guardrisk Life Limited to Capitec Ins Proprietary Limited, as recommended by the Prudential Authority (PA). It is considered good governance for the insurance operations of the group to be held outside of the banking operations to keep the risk, capital management and regulation of the banking and insurance operations separate. Capitec Ins Proprietary Limited obtained the shareholding in the cells at their carrying amounts from Capitec Bank Limited effective 31 March 2021. Capitec Ins Proprietary Limited, as the new shareholder of the cells, participates in the operating results of the cells as an attribution of profit.

Capitec Bank Limited declared and paid a dividend to Capitec Bank Holdings Limited to capitalise Capitec Ins Proprietary Limited while remaining committed to efficient capital management.

The directors performed the required solvency and liquidity tests required by the Companies Act.

Notice in terms of section 45(5) of the Companies Act

Capitec and Capitec Bank Limited are required, as an essential part of conducting the business of the group, to provide financial assistance to group companies as part of their day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Companies Act. In accordance with section 45(5) of the Companies Act shareholders were given notice in the notice of annual general meeting dated 28 April 2021 that the board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Companies Act and in terms of the special resolution passed, provide such direct or indirect financial assistance to related and interrelated companies as described in section 45 of the Companies Act.

Segment information

Refer to note 32 in the notes to the financial statements for the segment information.

Izindaba Ezinhle Employee Share Scheme

Capitec afforded participating employees the opportunity to subscribe for ordinary shares with a view to benefiting those employees and to align their interests with those of the shareholders. Capitec Bank Limited paid 50% of the subscription price on behalf of the employees with the balance being funded through loans provided to participating employees by Capitec. A 5-year trade restriction is imposed in respect of the shares issued in terms of the scheme. The impact on earnings per share is disclosed in note 29.

A special resolution was passed to grant authority to the board to authorise Capitec to provide financial assistance by way of loans to the employees and to issue ordinary shares out of the authorised and unissued share capital.

Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Directors and company secretary

Information relating to the directors and company secretary is included from pages 50 to 52 of the integrated annual report.

The directors' interest in share capital and agreements and directors' remuneration are disclosed in the notes to the annual financial statements.

Board changes

John (Jock) David McKenzie retired from the board on 28 May 2021.

Independent auditors' report

To the shareholders of Capitec Bank Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Holdings Limited (the Company) and its subsidiaries (together the Group) as at 28 February 2022, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Holdings Limited's consolidated and separate financial statements set out on pages 144 to 278 comprise:

- the consolidated and separate statements of financial position as at 28 February 2022;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled *"Integrated Annual Report 2022 Capitec Bank Holdings Limited"*, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

Our audit approach

Overview

Overall group materiality

- R546.7 million, which represents 5% of consolidated operating profit before tax.

Group audit scope

- The group audit scope, in addition to the audit of Capitec Bank Holdings, comprised the following:
  - the retail bank segment and the business bank segment of Capitec Bank Limited;
  - the insurance segment of Capitec Ins Proprietary Limited; and
  - the net loans and advances balance relating to Mercantile Rental Finance Proprietary Limited.

Key audit matter

- Expected credit losses (ECL) on loans and advances:
  - Retail bank
  - Business bank

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Independent auditors' report continued

To the shareholders of Capitec Bank Holdings Limited

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R546.7 million
How we determined it	Represents 5% of consolidated operating profit before tax.
Rationale for the materiality benchmark applied	We chose consolidated operating profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

In addition to a full scope audit of Capitec Bank Holdings which was scoped in for statutory purposes, full scope audits were performed for Capitec Bank Limited and Capitec Ins Proprietary Limited due to their financial significance to the Group based on their significant contribution to the consolidated operating profit before tax and consolidated total assets of the group. Both Capitec Bank Limited and Capitec Ins Proprietary Limited operate in South Africa. Capitec Bank Limited's financial statements comprise the retail bank segment and the business bank segment of the group, while the Capitec Ins Proprietary Limited's financial statements comprise the Insurance segment of the group.

The net loans and advances balance relating to Mercantile Rental Finance Proprietary Limited, a fully owned subsidiary of Capitec Bank Limited operating in South Africa, was also scoped in for group reporting due to its financially significant contribution to the consolidated total assets of the group. Mercantile Rental Finance Proprietary Limited's financial statements comprise the rental finance business which forms part of the business banking segment.

For all remaining insignificant components, we performed analytical review procedures.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group joint engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained in order to issue our audit opinion on the consolidated financial statements of the group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses (ECL) on loans and advances *Refer to note 3 (Critical accounting estimates and judgements in applying accounting policies), note 8 (Net loans and advances), note 2.5.1.2 (Accounting policies – Impairment) and note 33.1 (Credit risk) for the related disclosures.* We determined the ECL assessment for loans and advances to be a matter of most significance to the current year audit due to: • the degree of subjective judgement and estimation applied by management in determining the ECL; • the uncertainty related to continued economic strain due to rising petrol prices and Consumer Price Index (CPI); and • the magnitude of the ECL in relation to gross loans and advances.	
Retail bank For the Retail bank segment, at 28 February 2022, gross loans and advances amounted to R71.2 billion, against which an ECL of R16.8 billion was raised. In calculating the ECL, which is calculated in terms of International Financial Reporting Standards (IFRS) 9 – *Financial Instruments* (IFRS 9), the key areas of significant management judgement and estimation included: • Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in the calculated default risk, beyond determined thresholds. • Determining the write-off point. The Group considers the point at which there is no reasonable expectation of further recovery to be made, when the expected present value of projected future recoveries is less than 5% of the gross balance before write-off. This point is estimated based on recovery estimates that are driven by account status, behavioural score and consecutive missed payments. • Determining and weighting of assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (baseline, positive and negative scenario). The Group utilises a five year (2022 – 2026) macro-economic outlook of three scenarios and associated probability weightings of the Bureau of Economic Research (BER) to project future changes in the CPI, the petrol price, the unemployment rate, the real credit extension to households, and growth in the Gross Domestic Product (GDP). These scenarios are then linked to Probability of Defaults (PDs) to derive a forward-looking ECL. • Determining the impact of forward looking information relative to the baseline information built into the forward-looking economic model due to changes in the relationship of certain economic variables (such as petrol prices and CPI) to default rates, over the period of COVID-19 economic strain. In determining the impact of forward looking information relative to the baseline information, the Group considered the sensitivity of loans to the macro-economic scenarios based on the level of income of clients. Different models were used to assess the risk of clients with a lower and higher level of income. Clients with a lower level of income are seen to be more sensitive to stress from factors such as petrol prices and the general level of unemployment in the country. Clients with a higher level of income are less sensitive to stress and would be affected more by increases in the general levels of unemployment and a deterioration in GDP instead of the petrol price. • Determining the impact of continued economic strain due to rising petrol prices and CPI. This was considered by applying a more negative BER macro-economic outlook of January 2022, and in addition further increasing petrol prices and CPI based on economic data available as at 28 February 2022. • Determining event driven management ECL overlays. Management increases the results produced by the modelled output for events that influence the ECL, which are not yet captured by the model.	***Retail bank*** Making use of our actuarial and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows: ***Evaluation of SICR*** • We recalculated the application of management's SICR thresholds and triggers including the corresponding impact on the ECL by applying the assumptions and data included in management's model. • We assessed the appropriateness of the SICR methodology and tested the resultant transfer rate of SICR accounts into stage 2. This included benchmarking the transfer rate against the volume of up-to-date accounts that went into arrears based on historic trends as well as increases in risk determined by management's forward-looking economic model. • We performed a sensitivity analysis of SICR to assess the impact of change in SICR thresholds on the ECL recognised. • We evaluated management's validation of the performance of behavioural scores, granting scores and the correlation of these to default rates. • We obtained an understanding of management's process for identifying employer groups under stress and observed that these identified employer groups have been considered in management's calculation of the granting scores. ***Determining of the write-off point*** • We considered historical post write-off recoveries to evaluate the reasonableness of management's assessment which indicates that the current write-off point is still the point at which there was no reasonable expectation of further recovery. • Through recalculation, we tested the application of the IFRS 9 write-off policy. We also evaluated whether post write-off recoveries have been excluded from the LGD calculation and therefore do not impact on ECL.

Independent auditors' report continued

To the shareholders of Capitec Bank Holdings Limited

Key audit matter	How our audit addressed the key audit matter
Retail bank continued • Calibrating of the ECL statistical model components (Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD)) used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Group stratifies aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status and the behaviour score of the client. Management judgement is required to consider how historical data is used to project ECL.	***Retail bank*** continued ***Inclusion of the impact of forward-looking information and macro-economic variables in the ECL*** • We considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables and outlook considered for each scenario as well as the probability weighting of each scenario for reasonableness. We discussed these with management and compared these to our own and benchmarked economic forecasts and independent market data. • We tested the performance and sensitivity of the forward-looking model in order to evaluate whether the chosen macro-economic factors and model structure provides a reasonable representation of the impact of macro-economic changes on the ECL and baseline information built into the forward-looking economic model. We noted that the use of GDP and change in unemployment allows the COVID-19 related stress to be more accurately reflected. We assessed the reasonability of the selection of the macro-economic model and variables applied based on the level of income of the clients. • We assessed the reasonableness of how management considered the impact of continued economic strain on ECL by applying the BER macro-economic outlook of January 2022 that reflects these negative trends, and in addition the incorporation of increasing petrol prices and CPI to reflect information available as at 28 February 2022. We compared these stressed variables to our own and benchmarked economic forecasts and independent market data. ***Event driven management overlays in the ECL*** • We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. Based on our reperformance of the ECL model, we considered effects already taken into account by the ECL model (including the statistical macro-economic model) to assess whether the impact of the overlay did not result in double counting. • We evaluated whether these overlays were subject to an appropriate governance process. ***Calibrating of ECL statistical model components (PD, EAD, LGD)*** • Through discussion with management we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. • Through our independent reperformance of the ECL model, we assessed the model components and how these calibrated to use historical information to estimate future cash flows.

Key audit matter	How our audit addressed the key audit matter
Business bank For the Business bank segment, at 28 February 2022, gross loans and advances amounted to R12.9 billion, against which an ECL of R0.8 billion was raised. In calculating the ECL, which is calculated in terms of IFRS 9, the key areas of significant management judgement and estimation included: • Determining whether evidence exists that there has been a SICR since initial recognition of the financial instrument. • Assessing the impact of forward-looking information on ECL. A forward-looking model was developed that affects the PD and LGD parameters of the ECL model. In terms of this model, PDs are stressed using historically observed PDs and LGDs are increased by applying specific collateral haircuts. • For specific clients, management increased the modelled ECL output for events or circumstances that influence the modelled output, which are not yet captured by the model. This is primarily done for credit impaired (stage 3) exposures where collateral recovery expectations are different to that generated by the model. • Calibrating of the ECL statistical model components (PD, EAD and LGD) used to estimate the timing and amount of the forecasted cash flows based on historical default data and recoveries. Management judgement is required to consider how historical data is used to project ECL.	***Business bank*** Making use of our actuarial expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows: ***Evaluation of SICR*** • We recalculated the impact of SICR, applying the assumptions and data included in management's model, including the performance of rehabilitated accounts. • We tested the SICR triggers applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 based on history. • Through discussion with management, we obtained an understanding of management's process for identifying customers under stress and how these drive additional ECL overlays and/or stage migrations. ***Inclusion of the impact of forward-looking information in the ECL*** • We considered the assumptions used in determining the forward-looking impact on ECL and reperformed the impact on ECL. • We assessed the reasonableness of the stresses used by management in estimating the impact of forward-looking information by considering historic information and economic data and forecasts available at the reporting date. • We challenged the ECL impact and stage distribution by: – Performing staging stresses on management's risk category classifications. – Calculating an independent forward-looking ECL by introducing empirically derived shocks to the ECL. Roll rates were tracked over time to assess the shocks introduced to the model, and a Vasicek correlation parameter was applied to adjust PDs in line with the shocks in order to calculate an impact on ECL. • We assessed the reasonableness of the increase in ECL for the expected deterioration in collateral recovery and performed haircut stresses on the collateral. • We evaluated whether this was subject to an appropriate governance process. ***Calibrating of ECL statistical model components (PD, EAD, LGD)*** • Through discussion with management and inspection of documentation, we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. • In testing our understanding, we independently reperformed the calibration and application of the ECL model.

Independent auditors' report continued

To the shareholders of Capitec Bank Holdings Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled *"Integrated Annual Report 2022 Capitec Bank Holdings Limited"*, which includes the Directors' report, the Audit committee's report and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and Deloitte & Touche have been the joint auditors of Capitec Bank Holdings Limited for 2 years. Prior to the commencement of the joint audit relationship PricewaterhouseCoopers Inc. was the sole auditor of Capitec Bank Holdings Limited for 19 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane
Waterfall City
South Africa

12 April 2022

Deloitte & Touche

Deloitte & Touche
Per Partner: Darren Shipp
Registered Auditor

Johannesburg
5 Magwa Crescent
Waterfall City
South Africa

Statements of financial position

As at 28 February 2022

R'000	Note	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Assets					
Cash, cash equivalents and money market funds	4	**34 238 828**	49 318 269	**727 055**	13 391
Financial assets at fair value through profit or loss (FVTPL)	5	**—**	2 969 740	**—**	—
Financial investments at amortised cost	6	**62 939 724**	34 993 528	**—**	—
Term deposit investments	7	**722 190**	312 859	**—**	—
Net loans and advances	8	**66 549 103**	57 188 755	**—**	—
Other receivables	9	**3 284 984**	1 637 278	**2 134**	2 395
Net insurance receivable	10	**677 935**	987 116	**—**	—
Derivative assets	42	**14 586**	28 011	**—**	—
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	11	**72 680**	69 340	**—**	—
Interest in associates and joint ventures	12	**394 346**	377 009	**242 391**	242 391
Interest in subsidiaries	12	**—**	—	**6 020 425**	5 709 068
Property and equipment	13	**3 021 555**	2 946 158	**—**	—
Right-of-use assets	14	**1 909 435**	2 052 985	**—**	—
Intangible assets including goodwill	15	**1 348 005**	1 481 302	**—**	—
Deferred income tax asset	16	**2 769 410**	2 144 636	**—**	—
Total assets		**177 942 781**	156 506 986	**6 992 005**	5 967 245
Liabilities					
Derivative liabilities	42	**33 848**	65 589	**—**	—
Current income tax liability	36	**301 951**	159 520	**—**	—
Deposits	17	**132 398 377**	118 532 382	**—**	—
Wholesale funding	17	**2 060 193**	2 376 046	**—**	—
Other liabilities	18	**4 745 859**	2 817 641	**10 525**	5 993
Lease liabilities	19	**2 424 694**	2 500 977	**—**	—
Employee benefit liabilities	21	**212 144**	139 426	**—**	—
Group loans payable	12	**—**	—	**13 680**	16 703
Total liabilities		**142 177 066**	126 591 581	**24 205**	22 696
Equity					
Capital and reserves					
Ordinary share capital and premium	22	**5 649 020**	5 649 020	**5 649 020**	5 649 020
Izindaba Ezinhle Employee Share Scheme	39.2	**—**	—	**491 978**	—
Cash flow hedge reserve	23	**(12 405)**	(29 244)	**—**	—
Other reserves	23	**(28 625)**	(35 649)	**—**	—
Foreign currency translation reserve	23	**31 438**	50 291	**—**	—
Share option reserve	23	**515 809**	—	**23 831**	—
Retained earnings		**29 559 311**	24 225 346	**751 804**	239 888
Share capital and reserves attributable to ordinary shareholders		**35 714 548**	29 859 764	**6 916 633**	5 888 908
Non-redeemable, non-cumulative, non-participating preference share capital and premium	22	**51 167**	55 641	**51 167**	55 641
Total equity		**35 765 715**	29 915 405	**6 967 800**	5 944 549
Total equity and liabilities		**177 942 781**	156 506 986	**6 992 005**	5 967 245

Income statements

Year ended 28 February 2022

R'000	Note	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Lending, investment and insurance income	24	**19 962 749**	18 478 160	**479**	547
Interest income	24	**17 454 315**	16 544 268	**479**	547
Loan fee income	24	**968 856**	968 658	**—**	—
Net insurance income	24	**1 539 578**	965 234	**—**	—
Lending and investment expenses	24	**(4 856 145)**	(5 055 828)	**—**	—
Interest expense	24	**(4 837 898)**	(4 984 423)	**—**	—
Loan fee expense	24	**(18 247)**	(71 405)	**—**	—
Net lending, investment and insurance income		**15 106 604**	13 422 332	**479**	547
Transaction fee income	24	**14 533 033**	12 039 376	**—**	—
Transaction fee expense		**(4 018 567)**	(3 331 885)	**—**	—
Net transaction income		**10 514 466**	8 707 491	**—**	—
Foreign currency income		**497 605**	409 165	**—**	—
Foreign currency expense		**(353 212)**	(298 413)	**—**	—
Net foreign currency income		**144 393**	110 752	**—**	—
Dividend income	25	**—**	—	**3 754 657**	4 290
Funeral plan income		**905 847**	650 249	**—**	—
Other income	43	**290 024**	113 813	**6 181**	4 164
Credit impairments	26	**(3 507 754)**	(7 824 721)	**—**	—
Net income		**23 453 580**	15 179 916	**3 761 317**	9 001
Operating expenses	27	**(12 555 023)**	(9 462 434)	**(7 907)**	(3 390)
Share of net profit/(loss) of associates and joint ventures	12	**36 189**	(7 063)	**—**	—
Impairment of investment in associate	12	**—**	(122 202)	**—**	(65 682)
Operating profit before tax		**10 934 746**	5 588 217	**3 753 410**	(60 071)
Income tax expense	28	**(2 407 724)**	(1 130 133)	**(22)**	—
Profit for the year		**8 527 022**	4 458 084	**3 753 388**	(60 071)
Earnings per share (cents)					
Basic	29	**7 371**	3 850		
Diluted	29	**7 360**	3 848		

Statements of other comprehensive income

Year ended 28 February 2022

		GROUP		COMPANY	
R'000	**Note**	**2022**	**2021**	**2022**	**2021**
Profit for the year		**8 527 022**	4 458 084	**3 753 388**	(60 071)
Other comprehensive income that may subsequently be reclassified to profit or loss		**(2 014)**	12 574	**–**	–
Cash flow hedge reserve recognised during the year	23	**568**	(57 488)	**–**	–
Cash flow hedge reclassified to profit or loss for the year	23	**22 819**	46 517	**–**	–
Income tax relating to cash flow hedge	23	**(6 548)**	3 072	**–**	–
Foreign currency translation reserve recognised during the year	23	**(18 853)**	20 473	**–**	–
Other comprehensive income that will not subsequently be reclassified to profit or loss		**7 024**	(30 687)	**–**	–
Remeasurement of defined benefit obligation	20	**679**	547	**–**	–
Profit/(Loss) on remeasurement to fair value of financial assets (FVOCI)	23	**6 825**	(31 234)	**–**	–
Income tax thereon	23	**(480)**	–	**–**	–
Total comprehensive income for the year		**8 532 032**	4 439 971	**3 753 388**	(60 071)

Statements of changes in equity

Year ended 28 February 2022

		GROUP							
R'000	**Note**	**Ordinary share capital and premium**	**Preference share capital and premium**	**Foreign currency translation reserve**	**Cash flow hedge reserve**	**Other reserves**	**Share option reserve**	**Retained earnings**	**Total**
Balance as at 29 February 2020		5 649 020	73 098	29 818	(21 345)	(4 962)	–	19 855 211	25 580 840
Total comprehensive income for the year		–	–	20 473	(7 899)	(30 687)	–	4 458 084	4 439 971
Transactions with shareholders and directly recorded in equity		–	(17 457)	–	–	–	–	(87 949)	(105 406)
Ordinary dividend	36.4	–	–	–	–	–	–	–	–
Preference dividend	36.4	–	–	–	–	–	–	(4 290)	(4 290)
Employee share option scheme: value of employee services		–	–	–	–	–	–	31 574	31 574
Shares acquired for employee share options at cost	36.5	–	–	–	–	–	–	(160 381)	(160 381)
Proceeds on settlement of employee share options	36.5	–	–	–	–	–	–	72 104	72 104
Tax effect on share options		–	–	–	–	–	–	(24 885)	(24 885)
Preference shares repurchased		–	(17 457)	–	–	–	–	(2 071)	(19 528)
Balance as at 28 February 2021		**5 649 020**	**55 641**	**50 291**	**(29 244)**	**(35 649)**	**–**	**24 225 346**	**29 915 405**
Total comprehensive income for the year		**–**	**–**	**(18 853)**	**16 839**	**7 024**	**–**	**8 527 022**	**8 532 032**
Transactions with shareholders and directly recorded in equity		**–**	**(4 474)**	**–**	**–**	**–**	**515 809**	**(3 193 057)**	**(2 681 722)**
Ordinary dividend	36.4	**–**	**–**	**–**	**–**	**–**	**–**	**(3 237 556)**	**(3 237 556)**
Preference dividend	36.4	**–**	**–**	**–**	**–**	**–**	**–**	**(3 207)**	**(3 207)**
Employee share option scheme: value of employee services		**–**	**–**	**–**	**–**	**–**	**–**	**54 272**	**54 272**
Shares acquired for employee share options at cost		**–**	**–**	**–**	**–**	**–**	**–**	**(68 680)**	**(68 680)**
Proceeds on settlement of employee share options	36.5	**–**	**–**	**–**	**–**	**–**	**–**	**55 884**	**55 884**
Fair value of shares utilised for net settlement		**–**	**–**	**–**	**–**	**–**	**–**	**(45 574)**	**(45 574)**
Tax effect on share options		**–**	**–**	**–**	**–**	**–**	**–**	**52 513**	**52 513**
Preference shares repurchased		**–**	**(4 474)**	**–**	**–**	**–**	**–**	**(709)**	**(5 183)**
Izindaba Ezinhle Employee Share Scheme	39.2	**–**	**–**	**–**	**–**	**–**	**515 809**	**–**	**515 809**
Balance as at 28 February 2022		**5 649 020**	**51 167**	**31 438**	**(12 405)**	**(28 625)**	**515 809**	**29 559 311**	**35 765 715**
Note		22	22	23	23	23	23		

Statements of changes in equity continued

Year ended 28 February 2022

		COMPANY					
R'000	**Note**	**Ordinary share capital and premium**	**Preference share capital and premium**	**Share option reserve**	**Izindaba Ezinhle Employee Share Scheme**	**Retained earnings**	**Total**
Balance as at 29 February 2020		5 649 020	73 098	—	—	306 320	6 028 438
Total comprehensive income for the year		—	—	—	—	(60 071)	(60 071)
Transactions with shareholders and directly recorded in equity		—	(17 457)	—	—	(6 361)	(23 818)
Ordinary dividend	36.4	—	—	—	—	—	—
Preference dividend	36.4	—	—	—	—	(4 290)	(4 290)
Preference shares repurchased		—	(17 457)	—	—	(2 071)	(19 528)
Balance as at 28 February 2021		5 649 020	55 641	—	—	239 888	5 944 549
Total comprehensive income for the year		—	—	—	—	3 753 388	3 753 388
Transactions with shareholders and directly recorded in equity		—	(4 474)	23 831	491 978	(3 241 472)	(2 730 137)
Ordinary dividend	36.4	—	—	—	—	(3 237 556)	(3 237 556)
Preference dividend	36.4	—	—	—	—	(3 207)	(3 207)
Preference shares repurchased		—	(4 474)	—	—	(709)	(5 183)
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	—	491 978	—	491 978
Izindaba Ezinhle Employee Share Option Scheme	39.2	—	—	23 831	—	—	23 831
Balance as at 28 February 2022		5 649 020	51 167	23 831	491 978	751 804	6 967 800
Note		22	22	23	39.2		

Statements of cash flows

Year ended 28 February 2022

		GROUP		COMPANY	
R'000	**Note**	**2022**	**2021**	**2022**	**2021**
Cash flows from operating activities					
Cash flow from operations	36.1	16 860 119	31 087 476	3 755 492	7 152
Income tax paid	36.3	(2 844 582)	(1 357 299)	(22)	—
		14 015 537	29 730 177	3 755 470	7 152
Cash flows from investing activities					
Acquisition of property and equipment	13	(745 552)	(543 315)	—	—
Disposal of property and equipment	13	10 810	10 352	—	—
Acquisition of intangible assets	15	(116 988)	(293 859)	—	—
Loans to group companies – granted		—	—	(1 115 186)	—
Loans to group companies – repaid		—	—	1 115 186	1 451
Disposal of preference shares in subsidiary		—	—	4 474	17 457
Investment in term deposit investments	7	(1 200 000)	(3 275 617)	—	—
Redemption of term deposit investments	7	800 000	2 975 617	—	—
Acquisition of financial investments at amortised cost	6	(63 671 460)	(38 849 758)	—	—
Redemption of financial investments at amortised cost	6	36 477 246	21 026 817	—	—
Acquisition of financial assets at FVTPL	5	—	(1 461 000)	—	—
Redemption of financial assets at FVTPL	5	2 960 220	—	—	—
Decrease in short-term money market investments	4	11 511	13 863	—	—
Acquisition of financial investments at FVOCI	11	(1 725)	—	—	—
Interest acquired in associates and joint ventures	12	—	(25 300)	—	—
Acquisition of subsidiary net of cash acquired	12	—	(55 000)	(292 000)	—
Insurance recovery – civil unrest	43	198 292	—	—	—
		(25 277 646)	(20 477 200)	(287 526)	18 908
Cash flows from financing activities					
Dividends paid	36.4	(3 238 052)	(6 130)	(3 238 052)	(6 130)
Loans from group companies – granted	36.6	—	—	1 136 077	—
Loans from group companies – repaid	36.6	—	—	(1 139 100)	—
Preference shares repurchased	22	(5 183)	(19 528)	(5 183)	(19 528)
Issue of institutional bonds and other funding	17	750 000	—	—	—
Redemption of institutional bonds and other funding	17	(1 000 000)	(1 807 383)	—	—
Payment of lease liabilities	36.2	(320 117)	(248 259)	—	—
Shares acquired for settlement of employee share options	36.5	(17 452)	(160 381)	—	—
Participants' contribution on settlement of options	36.5	20 773	72 104	—	—
Izindaba Ezinhle Employee Share Scheme	39.2	—	—	491 978	—
		(3 810 031)	(2 169 577)	(2 754 280)	(25 658)
Effect of exchange rate changes on cash and cash equivalents		2 772	17 279	—	—
Net (decrease)/increase in cash and cash equivalents		(15 069 368)	7 100 679	713 664	402
Cash and cash equivalents at the beginning of the year	4	49 309 196	42 208 517	13 391	12 989
Cash and cash equivalents at the end of the year	4	34 239 828	49 309 196	727 055	13 391

Notes to the financial statements

Year ended 28 February 2022

1. General information

1.1 Nature of the business

The company's main business is that of a bank controlling company as envisaged in the Banks Act. The company's subsidiaries conduct retail and business banking, rental financing and hold insurance cell captives.

1.2 Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the statements of financial position, income statements, statements of other comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto.

The group's earnings attributable to ordinary and preference shareholders amounted to R8 527.0 million (2021: R4 458.1 million).

1.3 Overall application of the going concern principle

The directors reviewed the group budget and cash flow forecasts for the next 3 years and considered the group's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and cash flow forecasts took the impact of the COVID-19 pandemic, the July 2021 civil unrest and the expected impact of the current geopolitical tension into consideration, including projections of the impact on the group's capital, funding and liquidity requirements, all of which have remained within internal targets and above regulatory requirements.

Forecast earnings growth and risk-weighted assets are based on the group's macroeconomic outlook and are evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies.

The expected outcomes and constraints are then stress tested and the group sets targets through different business cycles and scenarios. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the annual financial statements.

1.4 Directors and company secretary

Information relating to the directors and company secretary is presented in the directors' report and statutory information.

1.5 Group details

The group's place of domicile and country of incorporation is the Republic of South Africa and it has a primary listing on the JSE.

Registered office: 5 Neutron Road, Techno Park, Stellenbosch, 7600.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The group's consolidated and company's separate annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), the IFRS Interpretations Committee interpretations, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

The consolidated and separate annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at FVTPL as well as instruments carried at FVOCI.

Refer to note 2.21 for new standards and interpretations not yet adopted.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements, are disclosed in note 3.

The accounting policies applied are consistent with the prior year annual financial statements other than for the addition of a policy to account for the Capitec Bank Holdings Limited Izindaba Ezinhle Employee Share Scheme. Refer to note 2.15.5.

In the notes to the annual financial statements, amounts denoted as current are expected to be recovered/settled no more than 12 months after the reporting period. Amounts denoted as non-current are expected to be recovered more than 12 months after the reporting period.

2.2 Basis of consolidation

The consolidated annual financial statements include those of the company, all its subsidiaries, associates, joint ventures and the share incentive trust.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Currently, the group does not have non-controlling interests as all subsidiaries are wholly-owned.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of 20% and up to 50% of the voting rights of the associate. Where the group holds less than 20%, other indicators, such as the right to representation on decision-making boards or committees, are considered.

The group's investment in associates includes the difference in initial cost versus its share of net assets acquired and any accumulated impairment loss.

A joint arrangement is an arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

Investments in associates and joint ventures are initially recognised at cost and, at group level, they are accounted for according to the equity method. Under the equity method, on initial recognition, the investments in associates and joint ventures are recognised at cost, and the carrying amount is increased or decreased to recognise the group's share of the post-acquisition profits or losses in profit or loss, and the group's share of movements in other comprehensive income. Distributions received from the associate will reduce the carrying amount of the investment.

In the event that the group's share of losses in an investment in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the respective associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

The group determines at each reporting date whether there is objective evidence that any investment in the respective associates is impaired. If this is the case, the difference between the recoverable amount of the said associate and its carrying value is recognised in the income statement.

Refer to note 2.16 foreign currency translation.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in an acquisition of a business (acquiree) comprises the fair values of the assets transferred, the liabilities assumed, the equity interests issued by the group and the fair value of any contingent consideration arrangements. If the contingent consideration is classified as equity, it is not subsequently remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the date of acquisition, except for:

- deferred tax assets or liabilities, which are recognised and measured in accordance with IAS 12 *Income Taxes* and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 *Employee Benefits*
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2 *Share-based Payments*
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

2.3.1 Goodwill

Goodwill in a business combination is recognised at the acquisition date when the consideration transferred and the recognised amount of non-controlling interests exceed the fair value of the net identifiable assets of the entity acquired. If the consideration transferred is lower than the fair value of the identifiable net assets of the acquiree (a bargain purchase), the difference is recognised in the income statement. The gain or loss arising on the disposal of an entity is calculated after consideration of attributable goodwill.

2.3.2 Business combinations under common control

Transactions in which the assets and liabilities are transferred from a subsidiary to its parent are referred to as a hive-up. Such transactions are generally scoped out of IFRS 3 *Business Combinations*. Capitec developed its own accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The substance of the hive-up is a common control transaction because the group is in the same position before and after the transaction and, on that basis, predecessor accounting was applied.

The prospective presentation method was applied and, as such, the acquired entity's results and statement of financial position are incorporated prospectively from the date on which the business combination between entities under common control occurred.

The assets and liabilities of the acquired entity are stated at predecessor carrying values in the acquirer's financial statements. As Capitec has elected to carry the assets and liabilities at predecessor values, there was no need to do fair value measurements. Predecessor carrying values are the carrying values related to the acquired entity. They are selected as the carrying amounts of assets and liabilities of the acquired entity from the consolidated annual financial statements.

These amounts include any goodwill (as recognised in the consolidated annual financial statements at the date of transfer), and other fair value adjustments, recorded at the consolidated level in respect of the acquired entity.

No new goodwill arises in predecessor accounting.

Any increase/decrease in the net assets in the consolidated annual financial statements of the acquired entity (i.e. the difference between the carrying amount of net assets of the acquired entity in the consolidated annual financial statements at the date of transfer and fair value of net assets acquired at the date of original external acquisition) would be recorded in equity in retained earnings.

The investment in the acquired entity is derecognised.

2.4 Cash, cash equivalents and money market funds

Cash, cash equivalents and money market funds are disclosed in 1 line on the statement of financial position.

Cash, cash equivalents and money market funds comprise balances with less than 3 months' maturity from the date of acquisition, including: cash, balances with central banks, resale agreements, treasury bills, debentures and other eligible bills, amounts due from banks, foreign banks, non-bank money market investments, fixed and notice deposits with original maturities less than 3 months and short-term government securities that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at amortised cost which approximates fair value due to the short-term nature of these instruments.

Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of less than 3 months, including government bonds, are included under cash and cash equivalents because they are subject to insignificant changes in value. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

Mandatory reserve deposits with the South African Reserve Bank (SARB) must be maintained at the average required by the SARB over a 1-month period and are non-interest-bearing. These deposits may be used to manage significant intraday and interday cash outflows but are not considered as available for normal cash planning purposes. A total of 70% of the balance is available without requiring prior regulatory approval.

2.5 Financial instruments

2.5.1 Financial assets

The group recognises financial assets on the statement of financial position once it becomes a party to the contractual terms of the particular financial instrument.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs on financial assets carried at FVTPL are expensed in the income statement.

Financial assets are derecognised when the rights to receive contractual cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

The group classifies its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The group classifies its financial assets into the following categories:

- Measured at amortised cost
- FVOCI
- FVTPL.

The group assesses its business model by portfolio of financial assets that are managed together and evaluates the following factors:

- How the performance of the portfolio is evaluated and reported to group management
- How the portfolio managers (if applicable) are compensated, including whether management is compensated based on the fair value of the assets or the contractual cash flow collected
- The risks that affect the performance of the business model and how those risks are managed
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectation of future sale activities.

The contractual cash flow characteristics are evaluated based on whether the contractual cash flows consist of solely payments of principal and interest (SPPI). This assessment includes assessing whether the financial asset has a contractual term that would change the timing or amount of contractual cash flows. The group considers whether the contractual cash flows are subject to any contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and features that would modify the consideration of the time value of money.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.1 Nature and subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost

The following items are the significant debt instruments held by the group:

(i) Loans and advances to clients that are recognised when funds are advanced to the borrowers.

Loan consolidations are treated as a derecognition of the loans as the contractual cash flows from the financial asset expire.

In instances where the group reschedules a credit agreement, the cash flows are renegotiated with the client, and, in some instances, the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 8.

When a client goes into debt review, cash flows are renegotiated and, in some instances, the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 8.

(ii) Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments.

They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than 3 months, deposit investments and deposits that have effective contractual notice periods greater than 3 months.

(iii) Financial investments consist of government stock, treasury bills and negotiable certificates of deposits.

These investments are measured at amortised cost subject to impairment.

For cash flow purposes, treasury bills are classified as investing activities by the Retail bank within Capitec Bank Limited as they are held to maturity and minimal amounts are held to meet the liquid asset requirement.

(iv) Other receivables comprise settlement balances with the regulator, prepayments, deposits that meet the definition of financial assets and other receivables.

These classes of debt instruments are held for the collection of their contractual cash flows; their cash flows represent SPPI and are therefore measured at amortised cost. Interest income from these financial assets is included in interest income on the group's income statement using the effective interest rate method. Impairment losses are presented as part of the credit impairment charge on the group's income statement.

Fair value through other comprehensive income

The following item is the only significant equity instrument of the group:

(i) Equity investment in African Bank Holdings Limited

The group elected to irrevocably designate its equity investment at FVOCI. This election results in fair value gains and losses being recognised in other comprehensive income and not subsequently being reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on such investments, continue to be recognised in the income statement when the group's right to receive such payments is established. Refer to note 11.

Fair value through profit or loss

The following items are the only significant financial instruments held at FVTPL:

(i) Derivative assets and derivative liabilities

Derivative financial instruments exclude equity instruments that are accounted for in terms of IFRS 2 *Share-based Payments*.

Derivatives are classified as held for trading and measured at FVTPL unless they are designated as part of a qualifying hedge. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. Transaction costs are expensed. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

All derivative contracts are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives are held only to cover economic exposures. The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions.

Currently, derivatives are limited to interest rate swaps, forward exchange contracts and foreign currency swaps.

Fair values are obtained from quoted market prices, where available, alternatively, valuation techniques based on observable market prices are used where possible, failing which, estimates are used.

Interest rate swaps are valued on a discounted cash flow (DCF) basis using yield curves appropriate for the relevant swap rate.

(ii) Financial assets – collective investment schemes (CIS)

CIS are classified and measured at FVTPL. CIS are initially recognised at fair value excluding transaction costs that are directly attributable to the acquisition of the financial asset and are subsequently remeasured at fair value. The fair value adjustments and interest received are recorded in other income in the statement of profit or loss.

2.5.1.2 Impairment

The group applied the ECL model on all financial debt instruments that are classified at amortised cost as well as undrawn commitments.

2.5.1.2.1 Recognition

Stage 1

An ECL is recognised at the time of initial recognition of the financial debt instruments and represents the lifetime cash shortfall arising from possible default events up to 12 months into the future from the reporting date.

An ECL continues to be determined on this basis until there is a SICR or the financial debt instrument becomes credit impaired.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the loan and the cash flows that the group expects to receive over the contractual life of the loan.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.1 Recognition continued

Stage 1 continued

(i) Retail bank

Loans and receivables

These are loans and advances which are up-to-date with no indication of SICR as well as loans that have been rescheduled from up-to-date or arrears and have been rehabilitated. Clients who applied for debt review more than 12 months ago and remained up-to-date are classified as stage 1 subject to the SICR assessment.

Government interest-bearing debt instruments

In assessing whether the credit risk of an investment in a government debt instrument has increased significantly since initial recognition, the group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields
- The rating agencies' assessment of creditworthiness
- The country's ability to access the capital markets for a new debt issuance
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country as well as the intention, communicated in public statements, of governments and agencies to access those mechanisms, including an assessment of the depth of mechanisms and the capacity to fulfil the required criteria.

(ii) Business bank

These are loans and advances which are up-to-date or up to 1 month in arrears with no indication of SICR. This includes distressed restructured loans that have rehabilitated.

Stage 2

The group monitors financial debt instruments subject to the impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. The 12-month ECL is extended to a lifetime ECL for these clients.

(i) Retail bank

The following loans and advances are included in stage 2:

- Up-to-date loans with SICR
- Loans where the forward-looking information indicates SICR
- Loans up to 1 month in arrears
- Loans that applied for debt review between 6 and 12 months ago which are currently performing
- COVID-19-related reschedules between 6 April 2020 and 19 July 2020 which have not yet rehabilitated by making 6 consecutive payments after rescheduling.

The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or specific events have occurred that raise a SICR flag in the model.

The Retail bank considers the following to be SICR for all loans and advances extended to the client:

- A client who has been reported as being retrenched or unemployed
- A client with a term loan that is up-to-date, but has a credit card which is in arrears or an access facility that has been rescheduled. The term loan is identified as SICR
- A client with a behaviour score that has decreased below the internal SICR threshold set by the bank
- A client's employer has been deemed as high risk.

(ii) Business bank

Includes the following financial assets:

- Loans that have experienced a SICR since initial recognition
- Loans where the forward-looking information indicates SICR
- Loans that are between 2 and 3 months in arrears
- Up-to-date loans that restructured from up-to-date (not yet rehabilitated)
- Up-to-date loans that restructured from arrears (not yet rehabilitated)
- COVID-19-related reschedules between 6 April 2020 and 19 July 2020 which have not yet rehabilitated.

The Business bank segment considers a loan to have experienced a SICR if the borrower is on the watch list and/or meets 1 or more of the following criteria:

- Significant adverse changes in the business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in the operating results of the borrower
- Significant change in collateral value which is expected to increase the risk of default
- Early signs of cash flow/liquidity problems such as a delay in servicing of trade creditors/loans.

A backstop is applied and the loan is considered to have experienced SICR if the borrower is more than 1 month past due on their contractual payment.

Stage 3 (credit impaired assets)

The group defines loans and advances as being 'credit impaired' when 1 or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Interest on loans and advances categorised as stage 3 is recognised in the income statement net of ECL impairments. Loans that are seen as stage 3, being credit impaired, have a lifetime ECL applied.

(i) Retail bank

Loans and advances are considered to be credit impaired upon the occurrence of any of the following events:

- The client is placed under debt review
- The client is handed over for collection or has another legal status
- The client is in default. The group defines default as the point at which the client is past due on 2 contractual payments
- The client applied for debt review less than 6 months ago and the loans are currently performing
- The loan was rescheduled from up-to-date and is up-to-date (not yet rehabilitated)
- The loan is currently up to 1 month in arrears and was previously rescheduled but has not rehabilitated
- The loan was rescheduled from arrears and is up-to-date (not yet rehabilitated).

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.1 Recognition continued

Stage 3 (credit impaired assets) continued

(ii) Business bank

A financial instrument is defined as in default, which is fully aligned with the definition of credit impaired, when it meets 1 or more of the following criteria:

Quantitative criteria

The borrower is more than 3 months past due on contractual payments.

The borrower meets unlikeliness to pay criteria, which indicate the borrower is in significant financial difficulty. These are instances where, *inter alia*:

- the borrower is in long-term forbearance
- the borrower is deceased
- the borrower is insolvent
- the borrower is in breach of financial covenant(s)
- an active market for the financial assets has disappeared because of financial difficulty/inability to meet contractual obligations and the borrower is in arrears
- it is becoming probable that the borrower may enter bankruptcy.

2.5.1.2.2 Measurement

The ECL is calculated as an unbiased, probability-weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward-looking.

The most significant class of financial asset subject to an ECL is loans and advances. The period over which the ECL is calculated is limited to the maximum contractual period.

The resultant ECL calculation amounts to the excess of the carrying amount above the present value of its expected cash flows, discounted using the effective interest rate on the financial instrument as calculated at initial recognition (initiation fee plus interest).

(i) Retail bank

Loans and advances comprise a large number of small, homogeneous assets.

An ECL provisioning model based on historical roll rates using the Markov chain method is used.

The Markov roll rate results are stratified into similar groups to ensure results are stable and appropriate to predict future cash flows for clients with similar characteristics.

Aspects such as client risk groups, time on book, product term, payment frequency (monthly, fortnightly or weekly), default statuses, employment, industry and rescheduling status and the behaviour score of the client are stratified.

Furthermore, the model combines the roll rate matrices with a loan amortisation model on a loan-by-loan basis. The specific features of each loan such as balance, interest rate, fees, remaining term, instalments and arrears status, combined with the roll rates applicable to loans with the same characteristics, enable the group to estimate the expected cash flow and balance amortisation of the loan. The rolled-up results enable the Retail bank segment to analyse portfolio and segmented views.

To determine the ECLs on the credit card portfolio, the group models the probability of an account entering default, the average exposure when an account enters default and the LGD based on historical trends. Clients are grouped together according to similar risk characteristics and historical default performance is projected into the future on the current non-default portfolio. The expected future incremental loss is discounted to a present value and is used as the impairment on the portfolio.

For loan commitments, the loss allowance is recognised as a provision. For agreements, at a client level, that contain both a drawn and undrawn portion, and the group cannot separately identify the ECLs on the commitment portion from those on the loan component, the ECLs on the undrawn component are recognised together with the drawn component. To the extent that the ECLs exceed the gross carrying amount of the loan, the excess is recognised as a provision.

Forward-looking economic assumptions are incorporated into the model where relevant and where they influence credit risk. These assumptions are incorporated using the group's most likely forecast for a range of macroeconomic assumptions. 3 forward-looking scenarios are incorporated into the range of reasonably possible outcomes (negative, positive and baseline scenarios).

(ii) Business bank

The extent of the ECL allowance for financial assets measured at amortised cost is calculated using complex models and significant assumptions about future economic conditions and credit behaviour.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These 3 components are multiplied and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

This effectively calculates an ECL for each future month, which is then discounted to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The portfolios are based on product type. The product types include: mortgage loans, current accounts, credit cards, instalment sales and leases, structured loans and medium-term loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis
- For revolving products, the EAD is predicted by adding a 'credit conversion factor' to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default.

The 12-month and lifetime LGDs are determined based on the factors that impact the recoveries made post default:

- For secured products, this is primarily based on collateral type, projected collateral values and time to recovery
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.2 Measurement continued

(ii) Business bank continued

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs change, etc., are monitored and reviewed periodically. The COVID-19 pandemic resulted in changes to some of the estimates and assumptions that were applied in the measurement of the ECL provision.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate enough forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

2.5.1.2.3 Impairment – loan write-offs

Write-off is a derecognition event.

Loans and advances are written off when it is has been determined that no reasonable expectation of recovery exists.

(i) Retail bank

The group considers the point at which there is no reasonable expectation of further recovery to be when the loan has a present value of future recovery less than 5% of the gross balance before write-off. This is currently estimated based on account status, behavioural score and consecutive missed payments.

This point is currently estimated as:

- loans terminated from debt review:
  - 4 consecutive missed payments (after allowing 3 months for administration)
- loans that have been handed over/other legal status:
  - handover score less than the predetermined threshold
  - handover score more than the predetermined threshold with 4 consecutive missed payments (after allowing 3 months for administration).

Where actual cash inflows exceed the amount written off, the excess is disclosed as bad debts recovered.

(ii) Business bank

Loans and debt securities are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or a part). This is the case when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

A judgemental approach to write-off is followed, based on a case-by-case assessment by a credit committee (CC). Each credit portfolio has a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.

The Business bank may apply enforcement activities to financial assets written off. Recoveries resulting from the group's enforcement activities will result in bad debts recovered.

2.5.1.2.4 Modifications and derecognition

Financial instruments are derecognised when:

- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example, an outright sale or settlement
- they are transferred and the derecognition criteria of IFRS 9 are met
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

If the contractual cash flows of a financial asset measured at amortised cost are modified (renegotiated or rescheduled), the group considers whether this is a substantial modification to the original terms, or if the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification. If changes are made as part of such distressed modification, the group does not derecognise the original financial asset.

The group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the loan's original effective interest rate. The difference between the recalculated gross carrying amount, and the gross carrying amount before the modification, is recognised as a modification gain or loss.

If the changes are considered to be a substantial modification, the group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates the effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

COVID-19-related reschedules were accounted for in the same way as any other reschedules. The interest fund relief on these loans was treated as a modification and the loss was recognised in profit or loss. This is similar to how modifications on clients entering debt review are accounted for.

Insurance premium relief that was granted as a result of a price increase in credit life insurance was treated as a modification and the loss was recognised in profit or loss.

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances

Up-to-date loans and advances, rehabilitated rescheduled loans	Clients who are fully up-to-date with their original contractual obligations or clients with amended contractual obligations and who have rehabilitated post rescheduling, are classified as up-to-date. SICR is identified for loans and advances that are up-to-date, but have reached certain behaviour risk thresholds or specific events have occurred that raise a SICR flag in the model.
Retail bank loan consolidations	Loan consolidations occur where a client with an existing Retail bank unsecured loan applies for further credit. A consolidation loan would always be as a result of a full credit assessment process that all clients (both new and existing) go through when applying for new credit. The outcome of that full credit assessment process is either a consolidation loan, a new separate loan or no new loan granted. These loans are not seen as modifications.
Rescheduling (Retail bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement, as formally agreed between the group and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact the bank when wanting to reschedule their loans due to changes in their circumstances. No initiation fee is charged on a rescheduled loan as no new credit is granted and the internal rate of return of the loan is unchanged. Rescheduled loans do not form part of loan sales.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 *Impairment* continued

2.5.1.2.5 *Terminology used to discuss the credit quality of loans and advances* continued

Rehabilitated	Clients with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling and are up-to-date with their amended contractual obligations. This is supported by statistical analysis.
Rescheduling (Business bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement. This can be done in the normal course of business (defined as a restructure) and is classified as stage 1 while the borrower is up-to-date. Rescheduling can also be used as a rehabilitation mechanism for clients who would otherwise not be able to meet their commitments (defined as distressed restructure). A reschedule is classified as stage 1 when the borrower has rehabilitated and is up-to-date. A reschedule where the borrower is in arrears is classified as stage 3. Refer above for the definition of rehabilitated.
Rescheduled from up-to-date not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were fully up-to-date with their original contractual obligations, have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payments under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from up-to-date are considered to be stage 1 once these loans have rehabilitated, unless their behaviour score is seen as a SICR, in which case the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Rescheduled from arrears not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were in arrears and were subsequently rescheduled and have made payments under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from arrears are considered to be stage 1 once these loans have rehabilitated, unless their behaviour scores are seen as a SICR, where the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Application for debt review	Clients who apply for debt review are identified as credit impaired, and the related loan classified as stage 3 for the first 6 months following application. Clients who applied for debt review more than 6 months ago who are up-to-date are identified as SICR and the related loan classified as stage 2 between 6 and 12 months following application. If clients applied for debt review more than 12 months ago and remained up-to-date, the related loan is classified as stage 1 subject to the SICR assessment.
COVID-19 rescheduled loans	Reschedules that were undertaken based on COVID-19-related factors. These loans comprise payment breaks and variable reschedules between 26 March 2020 and 19 July 2020 that have not yet been rehabilitated.
Arrears	Arrears reflect the outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid past the contractual payment date. The arrears balance therefore includes rescheduled loans when the amended instalment was not paid in full.
Forward-looking macroeconomic assumptions	IFRS 9 requires that forward-looking macroeconomic assumptions be applied to both 12-month and lifetime ECL calculations.

2.5.2 Financial liabilities

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at FVTPL, are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred and subsequently stated at amortised cost using the effective interest rate method.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the agreement relating to the financial liability is discharged, cancelled or has expired.

2.5.2.1 *Hedging activities*

The group designates certain derivatives as:

(i) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

(ii) economic hedges if not qualifying in terms of the accounting criteria classified as FVTPL.

The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions. Currently, derivatives are limited to interest rate swaps and forward foreign exchange contracts.

2.5.2.2 *Treatment of hedges qualifying as cash flow hedges*

The group will continue to apply IAS 39 to hedge accounting with the disclosures required by IFRS 7.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised in the income statement immediately.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable-rate borrowings is recognised in the income statement within interest expense. Refer to note 42 for separate disclosure.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within movement in financial instruments held at FVTPL disclosed under operating expenses.

At the inception of the transaction, the group designates the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in note 23.

2.5.2.3 *Treatment of economic hedges classified as FVTPL*

Where applicable, changes in the fair value of these derivatives classified as FVTPL are taken to profit or loss immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in notes 42 and 33.7.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.5 Financial instruments continued

2.5.2 Financial liabilities continued

2.5.2.4 Treatment of the SME Loan Guarantee Scheme

An arrangement facilitated by the Banking Association South Africa, between the SARB and participating banks in South Africa, was concluded during the current year. In terms of the arrangement, the SARB committed to provide dedicated funding at the repo rate to the banks who elected to participate in the SME Loan Guarantee Scheme (the scheme). The group is a participant in the scheme.

In terms of the scheme, the group will utilise the dedicated funding obtained from the SARB to lend to qualifying small- and medium-sized enterprise (SME) clients at the prime interest rate (ring-fenced portfolio). The loans are repayable over 5 years. Banks are not permitted to profit from these loans and any surpluses generated will accrue to National Treasury. As part of the scheme, commercial banks are sharing in 6% of the risk of non-repayment if the advances in the portfolio were to default.

The loans granted under the scheme are recognised in loans and advances (note 8). The limited guarantee arrangement entered into with the SARB is viewed as a credit enhancement integral to the loans advanced, and the cost of the limited guarantee is adjusted to the effective interest rate of the loans advanced under the scheme.

2.6 Intercompany loans

All loans to group companies bear interest as agreed by the parties from time to time and have no fixed repayment terms. As such, they are viewed to be repayable on demand.

2.7 Current tax

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position.

2.8 Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax laws and rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, ECLs, revaluation of certain financial assets and liabilities, prepaid expenses and tax losses carried forward. Deferred tax assets are raised only to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority on either: (a) the same taxable entity; or (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.9 Property and equipment

Land and buildings comprise owner-occupied properties, land being developed and completed buildings. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate costs to the residual values over the estimated useful lives, which currently are as follows:

- Automated teller machines (ATMs) 10 years
- Banking application hardware 3 – 5 years
- Buildings 50 years
- Computer equipment 3 – 7 years
- Motor vehicles 5 years
- Office equipment 5 – 10 years
- Leasehold improvements 5 – 10 years

The assets' residual values and useful lives are annually reviewed and adjusted, if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. Assets destroyed in insured events are derecognised when it is not probable that future economic benefits from the destructed asset will flow to the group. Compensation from insurance companies is included in the income statement when it becomes receivable.

2.10 Intangible assets

2.10.1 Computer software

Computer software licences are acquired and are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with developing and maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and unique systems controlled by the group, and that will probably generate economic benefits beyond 1 year, are recognised as intangible assets. Other development expenditures are recognised as an expense when incurred.

Amortisation on computer software is calculated using the straight-line method to allocate costs to the residual values over the estimated useful lives, which currently are as follows:

- Banking application software 6 years
- Desktop application software 2 – 4 years
- Server software 3 – 5 years

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.10 Intangible assets continued

2.10.2 Internally generated intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation on internally generated intangible assets is calculated using the straight-line method to allocate costs to the residual values over the estimated useful lives, which are currently as follows:

- Internally generated intangible assets 3 – 10 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

2.10.3 Core deposit intangible

The core deposit intangible is the intangible benefit of having acquired a readily available source of lower-cost funding rather than having to source funding from the open market. The lower-cost funds provide a substantial economic benefit and this benefit is therefore recognised as an intangible asset.

Core deposits are valued using the income approach (cost savings method), where savings in funding costs are considered as notional income and are capitalised over the useful life of deposits.

Amortisation of core deposit intangibles is calculated using the straight-line method to allocate cost over the estimated useful life, which is currently 7 years.

2.10.4 Client relationships

The client relationship represents future economic benefits in the form of future business with a client beyond the amount secured by any current contractual arrangements.

Client relationships are valued using the multi-period excess earnings method.

Amortisation of client relationships is calculated using the straight-line method to allocate its cost over its estimated useful life, which is currently 7 years.

2.10.5 Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary associate or joint venture at the date of the acquisition.

Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'intangible assets including goodwill' (interest in associates and joint ventures).

Goodwill is tested annually for impairment unless there is an impairment indicator, in which case the test is performed more than once a year.

2.11 Right-of-use assets

At inception of an agreement, the group assesses whether an agreement is, or contains, a lease. An agreement is, or contains, a lease if the agreement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether an agreement conveys the right to control the use of an identified asset, the group assess whether:

- the agreement involves the use of an identified asset – this may be specified explicitly or implicitly, and should be a physically distinct asset. If the supplier has a substantive right, then the asset is not identified
- the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the group has the right to direct the use of the asset. The group has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either: (i) the group has the right to operate the asset; or (ii) the group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception, or on reassessment of an agreement that contains a lease component, the group allocates the consideration in the agreement to each lease component on the basis of their relative stand-alone prices.

Where the group is the lessee

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (which is equal to the lease liability adjusted for upfront deposits) and increased with initial direct costs incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

The group applies the cost model subsequent to the initial measurement of the right-of-use asset.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The group enters into leases for branches, off-site ATM locations, office space and storage facilities.

Where the group is the lessor

Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term.

Subletting is incidental to the group's occupation of certain properties.

Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

These agreements consist of rental finance and instalment sale agreements. The rental finance agreements are typically granted to our Business bank clients to lease security equipment, copiers and telecommunication equipment. The instalment sale agreements are granted to finance motor vehicles and equipment of our Business bank clients. The ECL is measured either on a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. Measurement considers forward-looking information. ECL is the discounted result of PD, EAD and LGD without factoring in any collateral or residual values in the LGD.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.11 Right-of-use assets continued

Where the group is the lessor continued

Rights are accorded to suppliers and business partners to buy back the assets on termination of the lease agreement once the last rental has been paid. These are normally nominal values as invariably the life of the asset equates to the period of the lease or close thereto. Evergreen arrangements can be made where the client continues to utilise the asset after the term of the agreement is concluded and continues to pay rental. This could run for as long as 24 months but often, after 1 year, the agreement is cancelled and the ownership of the asset passes to the client for 3 months' rental. If the rental agreement does not proceed to term due to arrear rentals on the account, the asset is repossessed and disposed of at market-related prices. In many instances, the supplier may make an offer on the asset, refurbish it and put it back into the market or, if not, possibly buy it for spares. A condition embedded within the rental agreement is that the client is accountable for insuring the asset over the term of the rental agreement should the asset be lost, stolen or destroyed.

2.12 Lease liability

The lease liability is initially measured at the present value of the remaining lease payments on the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be determined, the lessee uses the lessee's incremental borrowing rate. The incremental borrowing rate will be used on a portfolio basis, as a specific rate for a single lease asset does not materially differ from the rate obtained on a portfolio basis. The rate is based on the 3-monthly swap curve and the basis for this curve is the 3-monthly Johannesburg Interbank Agreed Rate (JIBAR). The term structures of base rates and spreads are solved to a single rate for each lease maturity, to take into account the fixed-rate nature of the incremental borrowing rates in IFRS 16. Inputs considered include: the inclusion of a Capitec-specific margin, aligning the maturities of our bonds in issue to the cash flows of our current lease portfolio, adjusting the curve to reflect a secured lending rate and updating the convention of the curve to a monthly convention.

The lease liability is subsequently increased by interest cost on the lease liability and decreased by lease payments made.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments; variable lease payments that depend on an index or a rate; amounts payable under a residual value guarantee; and the exercise price under a purchase option that the group is certain to exercise.

Rental agreements are typically for fixed periods of 5 years but may have extension options as described above. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases – extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of branches, the following factors are the most relevant:

- Whether there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the group.

Short-term and low-value leases

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term shorter than 12 months and leases of low-value assets.

Low-value assets comprise information technology (IT) equipment.

The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.13 Impairment of non-financial assets

Equipment and other non-financial assets (for example, property and computer software) are assessed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell, and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Share capital

2.14.1 Categories of share capital

Authorised share capital consists of:

- ordinary shares
- non-redeemable, non-cumulative and non-participating preference shares
- convertible or written off, loss-absorbent preference shares.

2.14.2 Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14.3 Dividends declared

Dividends on ordinary shares and preference shares that are classified as equity are recognised in equity in the period in which they have been approved by the group's directors. Dividends for the year that are declared after the statement of financial position date are dealt with in the directors' report.

2.14.4 Treasury shares

Where the company or other members of the group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as shares held by the group until they are cancelled or sold.

2.14.5 Preference shares

As the preference shares are non-redeemable, non-cumulative and non-participating, they are included in equity.

2.15 Employee benefits

2.15.1 Pension obligations

The group contributes to provident and retirement funds classified as a defined contribution fund.

For defined contribution plans, the group pays fixed contributions to privately administered provident or retirement fund plans on a contractual basis. The group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.15 Employee benefits continued

2.15.2 Share-based compensation

The group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to retained income in the statement of changes in equity over the remaining vesting period.

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the cost of funding, as well as an assumption on the actual percentage of shares that will be delivered.

The group also has cash-settled, share-based compensation plans. The fair value of the liability incurred for employee services received is recognised as an expense over the vesting period. Until the liability is settled, the group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

2.15.3 Performance incentive scheme

The group operates a performance incentive scheme for senior and other employees, who are seen to be in leadership roles critical to the current and future success of the group's business.

The amount recognised as a liability is the present value of the obligation at the end of the reporting period.

The rate used to discount the obligation is determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of the bonds is consistent with the currency and term of the obligation.

The employee service cost is recognised in the income statement as the obligation arises.

2.15.4 Post-retirement medical benefits

The group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Mercantile Bank Limited (Mercantile) medical aid scheme prior to May 2000, who elected to retain benefits in 2005, and are based on these employees remaining in service up to retirement age.

The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the current service costs of providing post-retirement medical benefits are recognised in profit or loss.

The effect of settlements on the liability is recognised in profit or loss and any remeasurement of the defined benefit liability (which includes actuarial gains and losses) is recognised in other comprehensive income.

The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

2.15.5 Izindaba Ezinhle Employee Share Scheme

The Izindaba Ezinhle Employee Share Scheme is accounted for in terms of IFRS 2 *Share-based Payments*. The scheme involves the issuing of shares to participating employees. The scheme was accounted for in terms of IFRS 2 *Share-based Payment* as a cash-settled share-based payment transaction by Capitec Bank Limited in so far as Capitec Bank Limited had an obligation to pay 50% of the subscription price, on behalf of the employees, to Capitec Bank Holdings Limited, with the remaining balance being funded through loans provided to the participating employees.

The part of the scheme funded by the loans was accounted for as equity-settled in both the Capitec Bank Limited and Capitec Bank Holdings Limited separate financial statements. The cash received by Capitec Bank Holdings Limited as part of the cash-settled share-based payment transaction is separately accounted for in the equity of Capitec Bank Holdings Limited's separate financial statements. The whole scheme is accounted for as equity-settled for the group as the shares of Capitec Bank Holdings Limited were issued to employees of the group. The Izindaba Ezinhle Employee Share Scheme entry in equity in the separate financial statements is eliminated on consolidation to recognise a share option reserve.

The fair value of the equity instruments granted was measured using a Monte Carlo simulation, an option pricing model which takes into account the market price on grant date, the cost of funding as well as an assumption on the actual shares that will be delivered on repayment of the loan after 5 years. The fair value on the grant date is recognised in the income statement, with a corresponding increase in equity (share option reserve) in terms of IFRS 2 in the consolidated financial statements. As there are no service or performance conditions attached to the scheme, the expense is recognised on the grant date. A 5-year trade restriction is imposed in respect of the issued shares.

2.15.6 Co-investment plan share option scheme

Capitec Bank Holdings Limited granted share options directly to the employees of Capitec Bank Limited as consideration for services rendered as part of a bonus arrangement and in an effort to retain the services of specific employees. The strike price of the share options reduces by 5% per annum over the vesting period.

The fair value of the share options granted are measured on the grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption regarding the actual percentage of shares that will be delivered. The fair value on the grant date will be recognised in the income statement on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity. The share-based payment expense was calculated using the Monte Carlo option pricing model, which is reflective of the underlying characteristics of the co-investment plan share option scheme.

2.16 Foreign currency translation

2.16.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in South African rand, which is the group and company's functional and presentation currency. The financial statements of all the subsidiaries are also presented in South African rand, which is their functional and presentation currency. The investment in associate is translated to South African rand at the exchange rate prevailing at the reporting date. The equity-accounted earnings are translated to South African rand at the average exchange rate for the period. Gains or losses on translation are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve.

2.16.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into rand at the exchange rate prevailing at the reporting date. Exchange gains and losses on such balances are taken to profit or loss.

Exchange gains and losses on translation of a foreign operation are taken to other comprehensive income.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.17 Net insurance receivable

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

The group has provided capital to the third-party cell captive and allows the group to benefit from the ring-fenced Insurance business. From the group's perspective, the cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the Insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell captive.

The licensed cell captive insurer's accounting policy is applied to the third-party cell captive. Since the inception of the arrangement, the cell captive insurer has utilised the Standard of Actuarial Practice (SAP) 104 and Advisory Practice Notes issued by the Actuarial Society of South Africa to determine the policyholder liabilities of the cell captive. Policyholder liabilities are measured either on a discounted or undiscounted basis, depending on the features of the agreements.

The group's insurance liabilities comprise only a provision for claims incurred but not yet reported (IBNR). The IBNR provision is measured at the best estimate of ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not.

The cell captive arrangement exposes the group to insurance risk on the reinsured and retained insurance risk components in the cell captive. The group's insurance risk on the reinsured component relates to the risk that the reinsurer will fail to honour its obligations under the reinsurance agreement. The group's insurance risk on the retained component relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

With respect to the retained insurance risk, judgement is required in determining the actuarial movements of the insurance agreement liabilities held by the cell captive. There is uncertainty with regard to the claims that will be made by clients, which is dependent on a number of unpredictable factors. The cell captive insurer makes this judgement based on the best estimate and in accordance with SAP 104 principles.

The insurance risk associated with the investment in the cell captive arrangement is disclosed in the statement of financial position as 'Net insurance receivable'.

2.18 Revenue recognition

2.18.1 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income and expense are recognised separately from other fair value movements.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The original effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the original effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the agreement that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, which is the effective interest rate calculated at origination of the financial asset measured at amortised cost.

Loan origination fees that relate to the creation of a financial asset are amortised over the expected term of the loan on an effective interest rate basis and included in interest income.

2.18.2 Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided.

Loan fee expenses comprise credit insurance premiums paid and are recognised when the services are received from the first-party credit life insurance cell captive.

2.18.3 Transaction income and expenses

Transaction income and expenses are recognised when the performance obligations are met at a point in time. Card commission income and expenses and point-of-sale (POS) transactions are from the group's ATM and card machine networks.

Branch, cash and self-service transaction income, digital transaction income and related expenses arise due to the group's branch network and with various electronic banking channels that the group has, namely the banking app, USSD and internet banking platform.

Transaction income also includes monthly fees and fees on debit orders and other transactions.

2.18.4 Dividend income

Dividend income is recognised in the income statement when the entity's right to receive payment is established. Dividends on listed preference shares accrue on a day-to-day basis based on the terms of the underlying instruments.

Dividend income is recognised separately from other fair value movements.

2.18.5 Net insurance income

Net insurance income represents the movement before distributions paid to the group in the net insurance receivable and comprises profits from the third-party cell captive after reinsurance and tax. Investment returns have been included in interest income.

2.18.6 Funeral plan income

Funeral plan income comprises dividends and commission from a cell captive profit-sharing arrangement after reinsurance.

Capitec entered into a cell captive agreement that is 100% reinsured by a third party. The group is the owner of a cell captive, through a preference share investment, that holds the credit insurance underwritten by the cell captive insurer. This preference share investment is classified as a receivable measured at FVTPL. Due to the reinsurance risk being transferred to the third party, Capitec does not have an obligation to recapitalise the cell should any losses be suffered on in-force policies.

Funeral plan income is received from the cell captive after tax and has been included in funeral plan income.

2.18.7 Foreign currency income

Foreign currency income arises from exchange gains and losses, or remeasurement to fair value at each reporting date, of foreign exchange contracts and foreign currency swaps.

2.18.8 Foreign currency expense

Foreign currency expense comprises commission paid to intermediaries on foreign currency exchange gains.

2.18.9 Interest on investments at FVTPL

Interest income on investments at FVTPL is reflected in other income in profit or loss. The income is determined based on the movement in the fair value of the investment for the accounting period.

Notes to the financial statements continued

Year ended 28 February 2022

2. Accounting policies continued

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The group executive management committee (EXCO), headed by the CEO, has been identified by the group as the CODM, which is responsible for assessing the performance and allocation of resources of the group.

2.20 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial year

Title	Effective date	Impact
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one. Details regarding the transition to an alternative reference rate in South Africa are set out in note 33 to the financial statements. Due to the uncertainty regarding a transition date, the group has not been able to assess the impact.
IFRS 16 *Leases* – COVID-19-related rent concessions amendment	Annual periods beginning on or after 1 April 2021 (early adoption is permitted) (published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The impact on the group was assessed to be immaterial.

These amendments had no impact on the measurement of assets and liabilities at the previous year-end.

Comparatives are provided for new disclosures where required by the standards.

2.21 Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2021, or later periods, but which the group has not early adopted.

Title	Effective date	Impact
Annual improvements cycle 2018 – 2020	Annual periods beginning on or after 1 January 2022 (published May 2020)	IFRS 9 *Financial Instruments* has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of the '10% test' for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. IFRS 16 *Leases*, amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. The group has not yet assessed the impact of the amendments.
Amendment to IAS 1 *Presentation of Financial Statements* on classification of liabilities as current or non-current	Annual periods beginning on or after 1 January 2022 (published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The group has not yet assessed the impact of the amendments.
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on onerous contracts – cost of fulfilling a contract	Annual periods beginning on or after 1 January 2022 (published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The group has not yet assessed the impact of the amendments.
Amendments to IAS 16 *Property, Plant and Equipment* on proceeds before intended use	Annual periods beginning on or after 1 January 2022 (published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss. The group has not yet assessed the impact of the amendments.
Amendment to IAS 12 *Income Taxes* on deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 January 2023 (published May 2021)	These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The group has not yet assessed the impact of the amendments.
Amendment to IFRS 3 *Business Combinations*	Annual periods beginning on or after 1 January 2022 (published May 2022)	The IASB has updated IFRS 3 to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the IASB added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* rather than the 2018 Conceptual Framework. The IASB has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The group has not yet assessed the impact of the amendments.
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – Sale or contribution of assets between an investor and its associates or joint venture	The effective date for these amendments was deferred indefinitely	The IASB has made limited scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 *Business Combinations*). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. The group has not yet assessed the impact of the amendments.

2. Accounting policies continued

2.21 Standards, interpretations and amendments to published standards that are not yet effective continued

Title	Effective date	Impact
IFRS 17 *Insurance Contracts*	Annual periods beginning on or after 1 January 2023. Early application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 17 (published May 2017)	Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from the general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of 1 year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. Consequently, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract. The group has not yet assessed the impact of the amendments. The group has not yet assessed the impact of IFRS 17 on the insurance liabilities contained within the net insurance receivable presented on the face of the statement of financial position.
Amendments to IFRS 17 *Insurance Contracts*	Annual periods beginning on or after 1 January 2023 (published June 2020)	In response to some of the concerns and challenges raised, the IASB developed targeted amendments and several proposed clarifications intended to ease the implementation of IFRS 17, simplifying some requirements of the standard and ease of transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway. The group has not yet assessed the impact of IFRS 17 on the insurance liabilities contained within the net insurance receivable presented on the face of the statement of financial position.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of annual financial statements for the group requires management to make estimates that affect the amounts reported in the annual financial statements and accompanying notes. Management applies their judgement based on historical evidence, current events and actions that may be undertaken in future. Actual results may ultimately differ from estimates.

The determination of the ECLs on loans and impairment of goodwill represent the most material assumptions, estimates and judgements applied in preparing the consolidated annual financial statements. For the separate financial statements, the determination of the impairment of investment in associates is viewed as the most material estimate applied.

3.1 Judgements

3.1.1 Significant increase in credit risk

In terms of IFRS 9, all loans and advances are assessed at each reporting date to determine whether there has been a SICR event. In cases where a SICR event has occurred, an impairment equal to the lifetime ECL is recognised. If, at the reporting date, the credit risk has not increased significantly, the group recognises a 12-month ECL. The group identifies SICR on clients who are up-to-date on their loans but who have been subject to SICR events.

(i) Retail bank

Refer to note 2.5.1.2.1 for detail on the identification of SICR events since initial recognition. These consider shifts in the calculated default risk, beyond determined thresholds. The volume of up-to-date accounts that went into arrears based on historical trends (transfer rate) is considered in determining these thresholds. SICR is then adjusted for the impact of the forward-looking economic model.

Due to the COVID-19 pandemic, higher granting score thresholds were set for clients employed in industries under severe stress in the comparative period. As a result, deteriorating granting scores for existing loans exposed to these industries would likely result in SICR.

COVID-19 also impacted forward-looking information. Increasing the PD, as determined by behaviour and granting scores as a result of incorporating more negative forward-looking information as detailed in note 3.2.1 (estimates), would result in these moving beyond predetermined thresholds resulting in SICR. This resulted in loans being migrated to a separate grouping within stage 2 of the analysis of net loans and advances by stage, where an ECL of R648 million (2021: R1 037 million) is held as detailed in note 8.

In response to COVID-19, between 6 April 2020 and 19 July 2020, COVID-19 relief was offered to clients in the form of 3-month payment breaks or variable reschedules if their loans were up-to-date at the end of February 2020. Clients employed in the most severely affected industries, or who were no longer earning 70% of their salaries, were campaigned to proactively reschedule their loans. As a result, loans with a balance of R7 526 million prior to rescheduling were rescheduled and classified as a separate SICR category within stage 2 in the comparative period. By February 2022, the balance of these loans in stage 2 declined due to rehabilitating or defaulting with the amount in stage 2 SICR totalling R325 million (2021: R392 million), with R1 340 million (2021: R2 468 million) having cured by making 6 consecutive monthly payments after rescheduling. R1 520 million (2021: R1 900 million) is reflected in stage 3. The ECL was determined by the existing ECL model.

Notes to the financial statements continued

Year ended 28 February 2022

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.1 Significant increase in credit risk continued

(i) Retail bank continued

COVID-19-related balances were as follows:

Industry	Balance prior to reschedule R'm
Mining	1 316
Retail and wholesale	1 144
Services	1 025
Industrial goods and services	686
Travel and leisure	587
Government	7
Other	2 761
Total	**7 526**

In the prior year, COVID-19 reschedules were separately disclosed in the analysis of net loans and advances by stage in note 8.

Sensitivity analysis

For categories of SICR, other than forward-looking SICR which is included in note 3.2.1, the sensitivity analysis is as follows:

Impact of SICR on ECL	Positive	Base	Negative
2022			
Shifting of the SICR threshold by 5% (R'm)[1]	1 634	1 771	1 921
Percentage on total SICR ECL (%)	(7.8)	0.0	8.5
2021			
Shifting of the SICR threshold by 5% (R'm)[1]	1 098	1 262	1 478
Percentage on total SICR ECL (%)	(13.0)	0.0	17.1

[1] *Reflects the stage 2 ECL reported in note 8 as 'up-to-date loans with SICR and applied for debt review >6 months', if the deterioration or improvement in the factor used as a behavioural or granting score threshold is stressed by 5%.*

The sensitivity analysis of 'forward-looking SICR' reported in note 8 is included in note 3.2.1.

For COVID-19 related reschedules reported in the prior year, if all reschedules that were reported in stage 2 at year-end were reported in stage 3, and an ECL was raised at the stage 3 average ECL coverage, the ECL on these loans would have increased by R135 million. Similarly, if these reschedules were reported in stage 1, the ECL would have decreased by R99 million.

(ii) Business bank

Refer to note 2.5.1.2.1 for detail on the identification of SICR events.

In response to COVID-19, clients were offered moratoriums or restructuring on loans that were up-to-date at the end of February 2020. By February 2022, the balance of these loans in stage 2 was R659 million (2021: R876 million). The ECL was determined by the existing ECL model.

Sensitivity analysis

If all COVID-19-related reschedules that are reported in stage 2 at year-end were reported in stage 3, and an ECL was raised at the current stage 3 average ECL coverage, the ECL increases by R99 million (2021: R150 million). Similarly, if these reschedules were reported in stage 1, the ECL decreases by R53 million (2021: R58 million).

The ECL would increase by R49 million (2021: R30 million) if a lifetime ECL was applied to 5% of the current stage 1 portfolio. If we applied a lifetime provision to accounts that are between 1 and 30 days in arrears, the ECL would increase by R5 million.

3.1.2 Loan write-offs

Loans are written off when there is no reasonable expectation of further recovery. Refer to note 2.5.1.2.3.

3.1.3 Intangible assets: Goodwill impairment determination

Goodwill is tested annually for impairment unless there is an indicator of impairment, in which case the test is performed more than once a year. Mercantile was acquired in the 2020 financial year as a business bank and its operations and goodwill are monitored by Capitec management as a separate CGU from Capitec's retail operations.

The goodwill allocated to the Mercantile CGU as at 28 February 2022 is R849 million (2021: R849 million). In the prior year, the total goodwill increased by R55 million due to the acquisition of the remaining 50% in Mercantile Payment Solutions Proprietary Limited on 3 March 2020 for a cash consideration of R55 million.

As at 28 February 2022, management reviewed the assumptions and estimates used in the impairment calculation and determined that the recoverable amount exceeds the carrying amount.

The fair value less cost to sell is calculated using a free cash flow to equity model taking into account cash flows for the 10-year forecast period. A forecast period of greater than 5 years has been used in order to take into account the level of development expected from leveraging the Capitec Bank brand and the business banking process as well as the board's estimation of the impact of COVID-19 for all periods to which the budgetary process was applied. A terminal value is determined using a Gordon's Growth Model calculation.

The calculation used cash flow projections based on financial budgets approved by management and other management assumptions as per the below table. These projections consider actual growth over the past year in transactional volumes and in clients for certain business lines. The risks associated with the impact of COVID-19 and the global geopolitical tension were taken into account by stressing the variables as per the table. The various growth rates applied to the variables are consistent with forecasts included in industry reports specific to the industry in which the CGU operates, historical performance, management's expectation of market developments and management's forecast of new client revenues, which management believe will result from leveraging the Capitec Bank brand and the business banking process. The terminal growth rate does not exceed the historical long-term average growth rate for the country.

A stress of any one of the key assumptions as per the table below will not result in an impairment as the recoverable amount is sufficiently in excess of the carrying amount.

The table below sets out the key assumptions and the related stress:

Key assumptions[1]	Value	Stressed value
2022		
Compound growth rate – credit business (%)	16.6	13.9
Compound growth rate – other business (%)	17.7	13.7
Capital asset pricing model (CAPM) discount rate (%)	14.2	15.0
Terminal growth rate (%)	4.5	3.5
2021		
Compound growth rate – credit business (%)	17.3	16.3
Compound growth rate – other business (%)	19.0	18.3
CAPM discount rate (%)	14.0	14.2
Terminal growth rate (%)	5.0	4.7

[1] *In the fair value hierarchy, these unobservable inputs would be described as level 3.*

The future cash flows were discounted using the expected rate of return, which reflects specific risks relating to the CGU, while maximising use of market observable data. The expected rate of return was calculated using the CAPM.

Notes to the financial statements continued

Year ended 28 February 2022

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.3 Intangible assets: Goodwill impairment determination continued

For purposes of the calculation of the CAPM discount rate, the following assumptions were used:

Key assumptions	Approach to determining value	Value
2022		
Risk-free rate (%)	10-year South African government bond rate	**9.7**
Equity risk premium (%)	Available studies from Ibbotson, SBBI value year book, Damordaran studies, equity risk premium implied by stock markets and others	**5.3**
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	**0.85**
Cost of equity (%)		**14.2**
2021		
Risk-free rate (%)	10-year South African government bond rate	9.1
Equity risk premium (%)	Available studies from Ibbotson, SBBI value year book, Damordaran studies, equity risk premium implied by stock markets and others	5.5
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	0.89
Cost of equity (%)		14.0

A post-tax discount rate was used to discount post-tax cash flows in the determination of the fair value less cost to sell.

3.1.4 Valuation of investments in associates: Cream Finance Holdings Limited (Cream Finance)

The group considered the economic environment in which Cream Finance operates to be an indicator of potential impairment in terms of IAS 36 *Impairment of Assets*. Cream Finance is an associate, located in Cyprus, with subsidiaries based in a number of European and North American countries.

The group tested the carrying amount of its investment in Cream Finance by comparing it to the recoverable amount based on the fair value less cost to sell methodology.

The fair value less cost to sell is calculated using a dividend discount model taking into account dividend flows for the 10-year forecast period. A terminal value is determined using a Gordon's Growth Model calculation.

Each country within the Cream Finance group is affected by different factors such as government regulations, markets, economic and legal environments and each country's future cash flows are determined using the most appropriate method taking into consideration the factors that specifically affect it. The impact of COVID-19 and the global geopolitical tension on the financial performance were taken into account by adjusting future cash flows based on actual performance over the more recent period that was impacted by COVID-19.

The future dividend cash flows were discounted using the expected rate of return. The expected rate of return was calculated using the CAPM.

The table below sets out the key assumptions and related stress. The rates consider that this investment is in euro:

Key assumptions[1]	Value	Stressed values
2022		
Net growth rate (%)	**2.9**	**2.7 – 3.1**
Dividend payout rate (%)	**93.4**	**80 – 100**
Beta coefficient (%)	**1.13**	**1.11 – 1.15**
Terminal growth rate (%)	**2.9**	**2.7 – 3.1**
CAPM discount rate (%)	**8.4**	**8.2 – 8.6**
2021		
Net growth rate (%)	2.3	2.0 – 2.5
Dividend payout rate (%)	92.6	80 – 100
Beta coefficient (%)	1.07	1.05 – 1.09
Terminal growth rate (%)	2.3	2.0 – 2.5
CAPM discount rate (%)	8.9	8.7 – 9.1

[1] *In the fair value hierarchy, these unobservable inputs would be described as level 3.*

The future dividend cash flows were discounted using the expected rate of return. The expected rate of return was calculated using the CAPM.

Based on the assumptions above, the fair value less cost to sell of the investment is calculated by applying Capitec's shareholding (40.86%) and the exchange rate as at financial year-end.

Based on the 2021 comparative calculations above, an impairment of R122.2 million was determined as at 28 February 2021. Stress of any one of the key assumptions as per the table above did not result in a difference of more than R10 million to the impairment.

As at 28 February 2022, the fair value less cost to sell was determined. An improvement in recent underlying cash flows was not fully incorporated in the forward-looking expectations at this time due to the complex and evolving geopolitical situation in Eastern Europe. Stress of any one of the key assumptions as per the table above will not result in a difference of more than R18 million to the recoverable amount.

For purposes of the calculation of the CAPM discount rate, the following assumptions were used:

Key assumptions	Approach to determining value	Value
2022		
Risk-free rate (%)	The risk-free rate is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	**3.1**
Equity risk premium (%)	The risk premium is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	**4.8**
Beta coefficient	Available studies published by the NYU Stern School of Business for the 3-year average beta for banks in Western Europe and for financial services	**1.11**
Cost of equity (%)		**8.4**
2021		
Risk-free rate (%)	The risk-free rate is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	3.2
Equity risk premium (%)	The risk premium is extracted (market-risk-premium.com) per country and apportioned by the country's contribution to the total value of the loan book	5.3
Beta coefficient	Available studies published by the NYU Stern School of Business for the 3-year average beta for banks in Western Europe and for financial services	1.07
Cost of equity (%)		8.9

A post-tax discount rate was used to discount post-tax cash flows in the determination of fair-value less cost to sell.

Notes to the financial statements continued

Year ended 28 February 2022

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates

3.2.1 Forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future losses should take into account changes in the economic environment in the future.

(i) Retail bank

The asset and liability committee (ALCO) reviewed and approved the forward-looking economic outlook. 3 economic scenarios (negative, baseline and positive) were taken into account when calculating the impact of macroeconomic factors on ECLs.

The BER provided Capitec with a set of forward-looking scenarios and associated probabilities in November 2021. The BER published an updated macroeconomic baseline outlook in its January 2022 quarterly report, covering a planning horizon of 5 years. As only a baseline scenario was published in January 2022, Capitec applied a scaling technique to calculate the positive and negative scenarios as at February 2022 based on the biannual BER report published in November 2021 detailing all 3 scenarios.

The BER applies expert judgement in both the design of the narrative of the scenarios, their severity and the assignment of the probabilities attached to the scenarios. The probability weightings for the 12-month forecast period for each of the scenarios, as set out in the table that follows, was accepted by management.

Scenario probability	2022	2021
Baseline (%)	50	60
Negative (%)	29	35
Positive (%)	21	5

The change in probabilities is impacted by the severity of the scenarios. These scenarios are then linked to PDs to derive a forward-looking ECL.

Applying the probabilities provided by the BER results in a change in weightings year-on-year. This caters for the perceived balance of risk to the domestic economy resulting from the impact of continued economic strain on the economy exacerbated by global geopolitical tension already catered for in the deterioration of the macroeconomic variables themselves. The change in the probabilities is therefore impacted by the severity of the scenarios as the scenarios and weightings should be considered together.

The relevance of the outlook to Capitec's loan book is proven by a historical linear relationship to a change in a basket of macroeconomic variables. These variables are:

	Bad			Baseline			Good		
Macro-economic variable	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER	Average 12 months BER (stressed)	Average 12 months BER	Average remainder of forecast BER
2022									
Petrol[1]	31.2	22.5	3.8	29.0	22.2	3.6	28.4	21.8	3.1
CPI[1]	5.6	5.4	4.7	5.4	5.2	4.5	5.3	5.2	4.2
Unemployment (%)	—	35.4	36.3	—	35.0	34.8	—	34.9	33.8
Unemployment [1]	—	9.8	—	—	8.9	—	—	8.5	—
Real credit extension[1]	—	0.3	(1.0)	—	0.5	(0.1)	—	0.6	0.5
GDP [1]	—	(2.4)	0.9	—	(1.6)	1.8	—	(1.1)	2.6
2021									
Petrol[1]	33.1	19.6	8.5	23.4	14.6	8.1	16.8	11.1	7.3
CPI[1]	4.9	3.1	4.9	3.8	2.9	4.5	3.2	2.6	3.8
Unemployment (%)	37.2	33.7	37	36.4	33.6	35.7	34.8	32.9	33.6
Real wage rate[1]	(2.0)	0.9	0.8	(2.0)	1.0	0.9	(1.7)	1.1	1.2
Real credit extension[1]	(1.1)	0.3	(0.8)	(0.2)	0.4	1.6	(0.2)	1.5	3.5

[1] *Year-on-year percentage change.*

Impact of forward-looking information on ECL – Current year

The impact of forward-looking information on ECL, which includes the impact of forward-looking information on SICR, was determined by applying the macroeconomic variables as set out in the previous table. The impact of continued economic strain on ECL is exacerbated by global geopolitical tension. This was considered by applying the more negative BER macroeconomic outlook of January 2022 and in addition stressing the macroeconomic variables for petrol prices and CPI, being the variables directly impacted by the global geopolitical tension. The stresses considered economic data available as at 28 February 2022.

Determining the impact of forward-looking information relative to the baseline information built into the forward-looking economic model, is challenging due to changes in the relationship of certain economic variables (such as petrol prices and CPI) to default rates, over the period of COVID-19 economic strain. The sensitivity of loans to the macroeconomic scenarios based on the level of income of clients was therefore considered. Different models were used to assess the risk of clients with a lower and higher level of income. Clients with a lower level of income are seen to be more sensitive to stress from factors such as petrol prices and the general level of unemployment in the country. Clients with a higher level of income are less sensitive to stress and would be affected more by increases in the general levels of unemployment and a deterioration in GDP instead of the petrol price.

Impact of forward-looking information on ECL – Comparatives

The impact of forward-looking information on ECL was determined by applying the stressed macroeconomic variables as set out in the previous table. This includes the impacts of COVID-19 and the impact of forward-looking information on SICR. The stressed macroeconomic variables were determined as the most punitive forecast point of the respective variable over the 12-month forecast period. These were not adjusted for improvements in unemployment rates released by Stats SA in February 2021.

The increase in ECL that results from applying these stressed macroeconomic variables was quantified to equate to the additional ECL required for forecast increased economic strain due to unemployment, reduced affordability of government employees due to an expected 3-year wage freeze and the subsequent impact of increased unemployment on the ability of accounts to qualify for debt counselling.

Notes to the financial statements continued

Year ended 28 February 2022

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates continued

3.2.1 Forward-looking information continued

(i) Retail bank

Impact of forward-looking information on ECL – Comparatives continued

The impact of forward-looking information on the ECL based on the 3 scenarios is reflected below.

	R'm	Percentage (%) change in ECL
2022		
Probability-weighted impact of all 3 scenarios	**2 957**	
100% negative scenario	**3 321**	**12.3**
100% baseline scenario	**2 867**	**(3.0)**
100% positive scenario	**2 669**	**(9.7)**
2021		
Probability-weighted impact of all 3 scenarios	3 195	
100% negative scenario	3 847	20.4
100% baseline scenario	2 939	(8.0)
100% positive scenario	1 706	(46.6)

(ii) Business bank

Impact of forward-looking information on ECL – Current year

In response to the uncertain economic environment as described above, the following processes were undertaken as part of determining the ECL:

- Based on the significant level of judgement and how levels of historical data inform the previous forward-looking methodology, a new methodology was developed
- A forward-looking ECL calculation was performed to determine the required ECL given an expected increase in probability of default across the loan book due to the above-mentioned economic stress
- The reliance on commercial and residential property as collateral was reduced to reflect the expectation that a higher default environment with rising interest rates is expected to reduce demand for property leading to longer recovery times on security held as well as a reduction in recovery amounts.

The impact of forward-looking information on ECL was R97 million (2021: R125 million).

	R'm
PD and LGD at 110% of current forward-looking level	**10**
PD and LGD at 90% of current forward-looking level	**(10)**

Impact of forward-looking information on ECL – Comparatives

In response to the uncertainties caused by the COVID-19 pandemic and the impact that it has had on the economy, the following processes were undertaken as part of the ECL determination.

A specific review of high-risk clients was performed on both the performing and non-performing books. Management increased the modelled ECL output for events that influence the modelled output, which are not yet captured by the model. This was primarily done for credit impaired (stage 3) exposures where collateral recovery expectations are different to the output of the model.

A COVID-19 top-up model was created that affects the individual parameters or components of the impairment model based on 3 macroeconomic scenarios. In terms of this model, additional overlays were raised at a client level where exposures were judgementally classified into 1 of 4 risk categories. These classifications were based on criteria which included, among others, the industry in which the client operates, whether a moratorium was provided, whether relief renewals were provided and the bank's detailed knowledge of the client. The ECL was increased based on the risk classification.

3.2.2 Event-driven management credit estimates

(i) Retail bank

Certain events/risks that may not be incorporated into the statistical forward-looking model arise from time to time. In such instances, the additional inclusions in the ECL over and above the adjustment to ECL arising from forward-looking information are reviewed and approved by the CC on a monthly basis.

Events for which an amount was added to the ECL in the current and comparative period include the introduction of DebiCheck in November 2021. DebiCheck impacts on the collection of cash flows on loans and advances where clients move their bank accounts, change debit order dates or where there are changes in the rescheduled contractual cash flows. If clients fail to electronically confirm (authenticate) updated debit orders, the group could fail to collect the agreed upon instalment, on the agreed upon date. The risk is increased in the event of rescheduling loans of those clients where debit orders are collected from other banks and therefore needs to be authenticated by clients with other banks.

In the current year, an amount was also added to the ECL to consider the impact on ECL of a change in the retrenchment cover. The retrenchment insurance changed from covering the full outstanding balance to covering 24 instalments, for new loans originated from 10 May 2020.

3.2.3 Modelling assumptions

(i) Retail bank

Historical data may not always be reflective of the future. The way in which it is used by the statistical models (PD, EAD and LGD) to estimate the timing and amount of the forecast cash flows based on historical default data, roll rates and recoveries requires consideration of sub-segments.

These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status as well as the behaviour score of the client.

(ii) Business bank

Management judgement is required to consider how historical data is used to project ECL. In response to this, all components of the ECL statistical model (PD, EAD and LGD) used to estimate the timing and amount of forecast cash flows based on historical default data and recoveries have been recalibrated.

Notes to the financial statements continued

Year ended 28 February 2022

4. Cash, cash equivalents and money market funds

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Cash on hand	**2 870 552**	2 956 685	**—**	—
Rand-denominated bank balances	**17 994 708**	15 305 014	**727 055**	13 391
Foreign currency-denominated bank balances	**1 887 866**	1 692 426	**—**	—
Resale agreements[4]: Corporate	**—**	3 528 326	**—**	—
Resale agreements[4]: Banks	**8 442 802**	23 728 172	**—**	—
Central bank balances				
Mandatory reserve deposits with central bank[2]	**3 043 900**	2 098 573	**—**	—
Cash and cash equivalents	**34 239 828**	49 309 196	**727 055**	13 391
Non-cash adjustment: ECL[3]	**(1 000)**	(2 438)	**—**	—
Money market unit trusts	**—**	11 511	**—**	—
Total cash, cash equivalents and money market funds[1]	**34 238 828**	49 318 269	**727 055**	13 391
Maximum exposure to credit risk	**34 239 828**	49 320 707	**727 055**	13 391
Current portion	**34 238 828**	49 318 269	**727 055**	13 391

Stage 1 with no movement between stages.
12-month ECL of R1.0 million (2021: R2.4 million).

(1) Cash, cash equivalents and money market funds are classified as financial assets measured at amortised cost.
(2) Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations imposed by the central bank. These deposits bear no interest.
(3) The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance measured as 12-month ECLs because the credit risk has not increased significantly since initial recognition and no balances are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) are determined using an appropriate model, with the model applied determined with reference to the issuer of the financial instrument and the nature of the financial instrument. The PD is determined with reference to the credit rating of the issuer and the LGD is determined based on the fact that the financial instruments are not secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition. The SICR thresholds applied for corporate interest-bearing investments are the same as those applied within the Business bank portfolio to ensure consistency in the way that SICR is identified for a particular counterparty and for similar exposures.
(4) Financial investments purchased from external counterparties for cash, where the external counterparty has agreed to repurchase the asset at a specified price at a specified date in the future.

5. Financial assets at FVTPL

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	**2 969 740**	1 504 262	**—**	—
Additions – capital	**—**	1 461 000	**—**	—
Capital growth[2]	**1 160**	5 771	**—**	—
Accrued interest[2]	**12 010**	113 687	**—**	—
Maturities – interest accrued[3]	**(22 690)**	(114 980)	**—**	—
Disposal – capital[3]	**(2 960 220)**	—	**—**	—
Total financial assets at FVTPL[1]	**—**	2 969 740	**—**	—
Maximum exposure to credit risk	**—**	2 969 740	**—**	—
Current portion	**—**	2 969 740	**—**	—

(1) Financial assets at FVTPL comprise interest-bearing investments in collective investment schemes. The fair value of financial assets that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuations are described as part of the fair value hierarchy analysis.
(2) These movements have been recognised in other income.
(3) These movements represent cash flows received.

6. Financial investments at amortised cost

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	**34 993 528**	17 207 094	**—**	—
Additions	**63 671 460**	39 584 913	**—**	—
Interest accrued	**3 328 308**	1 378 061	**—**	—
Movement in ECL[2]	**(40 982)**	(59 334)	**—**	—
Maturities – capital	**(36 477 246)**	(21 701 550)	**—**	—
Maturities – interest accrued	**(2 535 344)**	(1 415 656)	**—**	—
Total financial investments at amortised cost[1]	**62 939 724**	34 993 528	**—**	—
Maximum exposure to credit risk	**63 048 447**	35 061 268	**—**	—
Current portion	**50 930 254**	30 057 886	**—**	—
Non-current portion	**12 009 470**	4 935 642	**—**	—

Stage 1 with no movement between stages.
12-month ECL of R108.7 million (2021: R67.7 million).

(1) Interest-bearing investments that are unlisted investments with a maturity greater than 3 months from date of acquisition. The group holds these instruments with lower credit risk (typically government bonds and treasury bills) in a business model with the objective of collecting contractual cash flows.
(2) The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance measured as 12-month ECLs as the credit risk of the investments has not increased significantly since initial recognition and no investments are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) are determined using an appropriate model, with the model applied determined with reference to the issuer of the financial instrument and the nature of the financial instrument. The PD is determined with reference to the credit rating of the issuer and the LGD is determined based on the fact that the financial instruments are not secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition. The SICR thresholds applied for government interest-bearing investments are disclosed in the group's accounting policies.

7. Term deposit investments

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	**312 859**	—	**—**	—
Additions	**1 200 000**	3 275 617	**—**	—
Interest accrued	**36 609**	42 637	**—**	—
Movement in ECL[2]	**(44)**	—	**—**	—
Maturities – capital	**(800 000)**	(2 975 617)	**—**	—
Maturities – interest accrued	**(27 234)**	(29 778)	**—**	—
Total term deposit investments[1]	**722 190**	312 859	**—**	—
Maximum exposure to credit risk	**722 190**	312 859	**—**	—
Current portion	**722 190**	312 859	**—**	—

Stage 1 with no movement between stages.
12-month ECL of less than R1 million (2021: less than R1 million).

(1) Term deposit investments comprise term to notice and fixed-term instruments held with South African banks. The investments have a maturity date of more than 3 months, but contractually less than 1 year.
(2) The balances are subject to the impairment requirements of IFRS 9, therefore the group recognised a loss allowance measured as 12-month ECLs on the term deposit investments as the credit risk has not increased significantly since initial recognition and no investments are credit-impaired at the statement of financial position date. The ECL statistical model components (EAD, LGD and PD) are determined using an appropriate model, with the model applied determined with reference to the issuer of the financial instrument and the nature of the financial instrument. The PD is determined with reference to the credit rating of the issuer and the LGD is determined based on the fact that the financial instruments are not secured by recognised collateral. The group did not apply the low credit risk exception in determining whether credit risk has increased significantly since initial recognition.

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances

	GROUP		COMPANY	
R'000	**2022**	**2021**	**2022**	**2021**
Loans and advances to clients				
Gross loans and advances[1]	**84 107 924**	75 026 356	—	—
Retail	**71 214 005**	63 985 565	—	—
Business loans[2]	**6 175 071**	5 439 350	—	—
Mortgage loans	**6 718 848**	5 601 441	—	—
Provision for credit impairments (ECL)	**(17 558 821)**	(17 837 601)	—	—
Retail	**(16 776 408)**	(17 184 203)	—	—
Business loans[2]	**(610 129)**	(467 097)	—	—
Mortgage loans	**(172 284)**	(186 301)	—	—
Net loans and advances	**66 549 103**	57 188 755	—	—
Current portion	**21 995 347**	19 022 401	—	—
Non-current portion	**44 553 756**	38 166 354	—	—
Maximum exposure to credit risk				
Loans and advances	**84 400 732**	75 348 974	—	—
Retail loan commitments[3][4]	**11 300 483**	4 924 124	—	—
Business loan commitments and guarantees[3][4]	**883 511**	796 533	—	—
Maximum exposure to credit risk	**96 584 726**	81 069 631	—	—
Maturity analysis				
Current portion (less than 1 year)	**26 104 954**	23 126 213	—	—
Demand to 1 month	**4 549 603**	3 860 166	—	—
1 to 3 months	**4 574 244**	3 968 615	—	—
3 months to 1 year	**16 981 107**	15 297 432	—	—
Non-current portion (more than 1 year)	**58 295 778**	52 222 761	—	—
1 to 2 years	**17 918 838**	16 416 185	—	—
2 to 5 years	**26 139 544**	23 053 996	—	—
More than 5 years	**4 165 519**	3 464 833	—	—
Non-contractual[5]	**10 071 877**	9 287 747	—	—
Total	**84 400 732**	75 348 974	—	—
Loan origination fees	**(292 808)**	(322 618)	—	—
Gross loans and advances (gross carrying amount)	**84 107 924**	75 026 356	—	—

[1] *The balances written off during the current year that are still subject to enforcement activities are: retail loans R5.4 billion (2021: R5.9 billion), mortgage loans R15.5 million (2021: R3.7 million) and business loans R0.6 million (2021: R3.0 million) Recoveries on these loans are included in bad debt recoveries.*

[2] *Business loans are loans granted to Business bank clients such as term loans, rental finance, structured loans and credit cards.*

[3] *For loan commitments, the loss allowance is recognised as a provision. For agreements at a client level, that contain both a drawn and undrawn component, the ECL is recognised with the loan component. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the excess is recognised as a provision.*

[4] *These are irrevocable commitments and guarantees that may be drawn down without any credit intervention from Capitec within 1 month.*

[5] *Stage 3 loans more than 3 months in arrears and with legal statuses.*

Credit risk exposure

The following tables contain an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the group's maximum exposure to credit risk on these assets. Refer to note 2.5.1.2.5 for explanations of the terminology used.

Analysis of net loans and advances by stage – Retail bank

	Stage 1 12-month ECL	Stage 2 Lifetime ECL				Stage 3 Lifetime ECL					
R'000	Up-to-date[1]	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[2]	Up to 1 month in arrears	COVID-19 reschedules[3]	COVID-19 reschedules[3]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
2022											
Gross loans and advances	**44 591 309**	**8 327 423**	**3 059 184**	**1 372 452**	—	—	**1 743 375**	**1 174 535**	**1 634 095**	**9 311 632**	**71 214 005**
Provision for credit impairments (ECL)	**(4 825 792)**	**(1 771 083)**	**(647 574)**	**(673 246)**	—	—	**(1 205 782)**	**(346 173)**	**(454 690)**	**(6 852 068)**	**(16 776 408)**
	39 765 517	**6 556 340**	**2 411 610**	**699 206**	—	—	**537 593**	**828 362**	**1 179 405**	**2 459 564**	**54 437 597**
ECL coverage by category (%)	**10.8**	**21.3**	**21.2**	**49.1**			**69.2**	**29.5**	**27.8**	**73.6**	**23.6**
ECL coverage by stage (%)											
Stage 1	**10.8**										
Stage 2	**24.2**										
Stage 3	**63.9**										
2021											
Gross loans and advances	38 711 431	4 219 586	4 563 628	1 008 057	391 882	24 226	1 903 584	2 105 266	2 402 866	8 655 039	63 985 565
Provision for credit impairments (ECL)	(3 637 858)	(1 262 221)	(1 036 611)	(700 514)	(135 805)	(6 968)	(1 578 098)	(894 042)	(836 737)	(7 095 349)	(17 184 203)
	35 073 573	2 957 365	3 527 017	307 543	256 077	17 258	325 486	1 211 224	1 566 129	1 559 690	46 801 362
ECL coverage by category (%)	9.4	29.9	22.7	69.5	34.7	28.8	82.9	42.5	34.8	82.0	26.9
ECL coverage by stage (%)											
Stage 1	9.4										
Stage 2	30.8										
Stage 3	69.0										

[1] *Gross loans and advances of R44.6 billion (2021: R38.7 billion) in stage 1 comprise up-to-date loans (not previously rescheduled) of R41.6 billion (2021: R36.2 billion), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R1.2 billion (2021: R1.1 billion), up-to-date loans that rescheduled from arrears and that have rehabilitated of R0.8 billion (2021: R0.5 billion) and rehabilitated COVID-19 reschedules of R1.0 billion (2021: R1.1 billion).*

[2] *Comprises loans where the forward-looking information indicates a SICR trigger.*

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

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Credit quality – Retail bank

The internal credit rating risk buckets used to explain low, medium and high risk were subjectively determined by bucketing accounts by behavioural scores. New loans may be granted to certain high-risk clients, depending on the credit-granting strategy and granting scorecards. The increased risk resulting from SICR and forward-looking information is set out in note 3.1.1 and note 3.2, respectively. For Retail bank, behavioural scores range from 666 (lowest risk) to zero (highest risk). The low-risk band applied was 648 to 666, the medium risk band 621 to 647 and the high-risk band 0 to 620. The same bands were used in 2021.

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Low	33 453 151	5 705 602	643 962	39 802 715
Medium	10 097 581	4 583 066	1 807 715	16 488 362
High	1 040 577	2 470 391	11 411 960	14 922 928
On-balance sheet	44 591 309	12 759 059	13 863 637	71 214 005
Low	9 223 649	208 870	—	9 432 519
Medium	1 451 050	278 008	—	1 729 058
High	20 587	118 319	—	138 906
Off-balance sheet	10 695 286	605 197	—	11 300 483
2021				
Low	29 772 470	3 883 156	224 472	33 880 098
Medium	8 172 687	4 060 529	2 518 700	14 751 916
High	766 274	2 239 468	12 347 809	15 353 551
On-balance sheet	38 711 431	10 183 153	15 090 981	63 985 565
Low	3 667 780	25 003	—	3 692 783
Medium	876 001	16 717	—	892 718
High	315 587	23 036	—	338 623
Off-balance sheet	4 859 368	64 756	—	4 924 124

Analysis of net loans and advances by stage – Business bank

	Stage 1 12-month ECL		Stage 2 Lifetime ECL					Stage 3 Lifetime ECL		
R'000	Up-to-date[(1)]	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[(2)]	COVID-19 reschedules[(2)]	More than 3 months in arrears legal statuses and applied for business rescue liquidations	Total
2022										
Gross loans and advances	10 590 745	115 337	313 875	36 751	151 559	125 736	658 781	—	901 135	12 893 919
Business loans	4 998 554	35 394	249 222	25 462	110 878	20 763	307 042	—	427 756	6 175 071
Mortgage loans[(3)]	5 592 191	79 943	64 653	11 289	40 681	104 973	351 739	—	473 379	6 718 848
Provision for credit impairments (ECL)	(195 129)	(1 218)	(69 209)	(15 170)	(15 730)	(9 294)	(112 424)	—	(364 239)	(782 413)
Business loans	(169 516)	(1 003)	(65 819)	(13 416)	(9 631)	(2 959)	(69 597)	—	(278 188)	(610 129)
Mortgage loans	(25 613)	(215)	(3 390)	(1 754)	(6 099)	(6 335)	(42 827)	—	(86 051)	(172 284)
	10 395 616	114 119	244 666	21 581	135 829	116 442	546 357	—	536 896	12 111 506
ECL coverage by category (%)	1.8	1.1	22.0	41.3	10.4	7.4	17.1		40.4	6.1
ECL coverage by stage (%)										
Stage 1	1.8									
Stage 2	17.2									
Stage 3	40.4									
2021										
Gross loans and advances	8 895 296	90 230	128 913	26 134	172 317	91 839	875 845	35 907	724 310	11 040 791
Business loans	4 440 446	39 233	55 361	18 761	119 557	34 306	371 187	3 703	356 796	5 439 350
Mortgage loans[(3)]	4 454 850	50 997	73 552	7 373	52 760	57 533	504 658	32 204	367 514	5 601 441
Provision for credit impairments (ECL)	(203 525)	(1 325)	(13 466)	(5 072)	(11 206)	(9 965)	(98 679)	(4 777)	(305 383)	(653 398)
Business loans	(158 263)	(992)	(10 631)	(4 801)	(9 180)	(5 962)	(54 687)	(1 907)	(220 674)	(467 097)
Mortgage loans	(45 262)	(333)	(2 835)	(271)	(2 026)	(4 003)	(43 992)	(2 870)	(84 709)	(186 301)
	8 691 771	88 905	115 447	21 062	161 111	81 874	777 166	31 130	418 927	10 387 393
ECL coverage by category (%)	2.3	1.5	10.4	19.4	6.5	10.9	11.3	13.3	42.2	5.9
ECL coverage by stage (%)										
Stage 1	2.3									
Stage 2	10.7									
Stage 3	40.8									

(1) *Gross loans and advances of R10.6 billion (2021: R8.9 billion) in stage 1 comprise up-to-date loans (not previously rescheduled) of R10.6 billion (2021: R8.9 billion), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R4.0 million (2021: R7.4 million), up-to-date loans that rescheduled from arrears and have rehabilitated of R23.2 million (2021: R9.1 million). Under stage 1 up-to-date, an amount of R110.9 million (2021: R2.6 billion) is included relating to COVID-19 reschedules where normal payments have commenced but the continuous repayment is still tracked and currently up-to-date.*

(2) *COVID-19-related reschedules prior to the PA Directive 3 of 2020 were treated as stage 3 in terms of the existing rescheduling 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.*

(3) *Consists of mortgage loans where Capitec was the credit provider. Mortgage loans do not include loans provided in association with SA Home Loans which are not accounted for in gross loans and advances as Capitec is the originator and not the credit provider or servicer.*

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Credit quality – Business bank

The internal credit rating risk buckets were determined subjectively. Parameters included arrears, industry and geographical risk, and whether reschedules were distressed or not for stage 1 and stage 2. For stage 3, litigation, business rescue, sequestration and write-off were considered.

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Low				
Business loans	4 488 092	50 844	—	4 538 936
Mortgage loans	5 505 875	32 445	—	5 538 320
Medium				
Business loans	545 855	210 852	—	756 707
Mortgage loans	166 260	43 497	—	209 757
High				
Business loans	—	451 672	427 756	879 428
Mortgage loans	—	497 392	473 379	970 771
On-balance sheet	10 706 082	1 286 702	901 135	12 893 919
Low				
Business loans	632 905	—	—	632 905
Mortgage loans	248 523	—	—	248 523
Medium				
Business loans	—	—	—	—
Mortgage loans	—	—	—	—
High				
Business loans	—	—	—	—
Mortgage loans	—	2 078	5	2 083
Off-balance sheet	881 428	2 078	5	883 511
2021				
Low				
Business loans	3 051 131	6 848	—	3 057 979
Mortgage loans	2 924 087	19 621	—	2 943 708
Medium				
Business loans	1 075 939	110 232	—	1 186 171
Mortgage loans	1 132 600	59 713	—	1 192 313
High				
Business loans	352 609	482 092	360 499	1 195 200
Mortgage loans	449 160	616 542	399 718	1 465 420
On-balance sheet	8 985 526	1 295 048	760 217	11 040 791
Low				
Business loans	173 673	—	—	173 673
Mortgage loans	138 366	—	—	138 366
Medium				
Business loans	282 249	—	—	282 249
Mortgage loans	120 975	—	808	121 783
High				
Business loans	32 925	—	11	32 936
Mortgage loans	38 296	9 230	—	47 526
Off-balance sheet	786 484	9 230	819	796 533

Analysis of gross loans and advances – Retail bank

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Balance as at 1 March 2021	38 711 431	10 183 153	15 090 981	63 985 565
Net loan sales[(1)]	45 929 885	(1 503 534)	(494 445)	43 931 906
New loan sales	55 713 362	—	—	55 713 362
Loans derecognised (other than write-offs)	(9 783 477)	(1 503 534)	(494 445)	(11 781 456)
Income accrued for the year[(2)]	13 056 058	1 905 714	3 244 615	18 206 387
Transfers				
Stage 1 to stage 2	(12 907 151)	12 907 151	—	—
Stage 1 to stage 3	(7 140 420)	—	7 140 420	—
Stage 2 to stage 3	—	(2 002 516)	2 002 516	—
Stage 3 to stage 2	—	692 718	(692 718)	—
Stage 3 to stage 1	1 670 620	—	(1 670 620)	—
Stage 2 to stage 1	4 438 863	(4 438 863)	—	—
Repayments	(39 167 977)	(4 984 764)	(4 646 869)	(48 799 610)
Modifications	—	—	(660 523)	(660 523)
Write-offs	—	—	(5 449 720)	(5 449 720)
Balance as at 28 February 2022	44 591 309	12 759 059	13 863 637	71 214 005
2021				
Balance as at 1 March 2020	48 311 271	5 617 580	11 509 056	65 437 907
Net loan sales[(1)]	30 397 649	(676 922)	(386 804)	29 333 923
New loan sales	38 147 733	—	—	38 147 733
Loans derecognised (other than write-offs)	(7 750 084)	(676 922)	(386 804)	(8 813 810)
Income accrued for the year[(2)]	12 851 989	1 978 290	3 647 279	18 477 558
Transfers				
Stage 1 to stage 2	(10 537 361)	10 537 361	—	—
Stage 1 to stage 3	(10 406 750)	—	10 406 750	—
Stage 2 to stage 3	—	(1 897 983)	1 897 983	—
Stage 3 to stage 2	—	626 499	(626 499)	—
Stage 3 to stage 1	624 608	—	(624 608)	—
Stage 2 to stage 1	1 210 141	(1 210 141)	—	—
Repayments	(33 526 816)	(4 721 038)	(4 704 626)	(42 952 480)
Modifications	(213 300)	(70 493)	(645 599)	(929 392)
Write-offs	—	—	(5 381 951)	(5 381 951)
Balance as at 28 February 2021	38 711 431	10 183 153	15 090 981	63 985 565

[(1)] *New loan sales include new loans issued on consolidating loans. The loans settled are disclosed separately. Monthly credit card, access facility and credit facility disbursements are included in new loan sales.*

[(2)] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees and gross insurance income.*

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Analysis of gross loans and advances – Business bank

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Business loans				
Balance as at 1 March 2021	4 479 679	599 172	360 499	5 439 350
New loan sales	51 635 214	—	—	51 635 214
Income accrued for the year[1]	401 007	53 885	34 817	489 709
Transfers				
Stage 1 to stage 2	(213 387)	213 387	—	—
Stage 1 to stage 3	(71 128)	—	71 128	—
Stage 2 to stage 3	—	(21 683)	21 683	—
Stage 3 to stage 2	—	48	(48)	—
Stage 3 to stage 1	917	—	(917)	—
Stage 2 to stage 1	52 064	(52 064)	—	—
Repayments	(51 250 418)	(79 378)	(5 873)	(51 335 669)
Write-offs	—	—	(53 533)	(53 533)
Balance as at 28 February 2022	**5 033 948**	**713 367**	**427 756**	**6 175 071**
2021				
Business loans				
Balance as at 1 March 2020	4 484 663	185 320	268 720	4 938 703
New loan sales	47 365 166	—	—	47 365 166
Income accrued for the year[1]	417 124	27 173	32 106	476 403
Transfers				
Stage 1 to stage 2	(448 114)	448 114	—	—
Stage 1 to stage 3	(91 863)	—	91 863	—
Stage 2 to stage 3	—	(32 338)	32 338	—
Stage 3 to stage 2	—	—	—	—
Stage 3 to stage 1	3 118	—	(3 118)	—
Stage 2 to stage 1	4 528	(4 528)	—	—
Repayments	(47 254 943)	(24 569)	(13 124)	(47 292 636)
Write-offs	—	—	(48 286)	(48 286)
Balance as at 28 February 2021	**4 479 679**	**599 172**	**360 499**	**5 439 350**

[1] The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Mortgage loans				
Balance as at 1 March 2021	4 505 847	695 876	399 718	5 601 441
New loan sales	2 267 880	—	—	2 267 880
Income accrued for the year[1]	353 588	50 320	33 434	437 342
Transfers				
Stage 1 to stage 2	(80 920)	80 920	—	—
Stage 1 to stage 3	(70 795)	—	70 795	—
Stage 2 to stage 3	—	(53 605)	53 605	—
Stage 3 to stage 2	—	—	—	—
Stage 3 to stage 1	11 830	—	(11 830)	—
Stage 2 to stage 1	117 531	(117 531)	—	—
Repayments	(1 432 827)	(82 645)	(50 616)	(1 566 088)
Write-offs	—	—	(21 727)	(21 727)
Balance as at 28 February 2022	**5 672 134**	**573 335**	**473 379**	**6 718 848**
2021				
Mortgage loans				
Balance as at 1 March 2020	4 830 639	264 180	311 822	5 406 641
New loan sales	1 552 799	—	—	1 552 799
Income accrued for the year[1]	330 580	36 670	26 991	394 241
Transfers				
Stage 1 to stage 2	(473 377)	473 377	—	—
Stage 1 to stage 3	(87 502)	—	87 502	—
Stage 2 to stage 3	—	(49 934)	49 934	—
Stage 3 to stage 2	—	—	—	—
Stage 3 to stage 1	8 968	—	(8 968)	—
Stage 2 to stage 1	12 076	(12 076)	—	—
Repayments	(1 668 336)	(16 341)	(48 512)	(1 733 189)
Write-offs	—	—	(19 051)	(19 051)
Balance as at 28 February 2021	**4 505 847**	**695 876**	**399 718**	**5 601 441**

[1] The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.

Notes to the financial statements continued
Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Analysis of gross loans and advances – Business bank continued

R'000	2022 Amortised cost before modification	2022 Net modification loss	2022 Gross carrying amount at year-end[1]	2021 Amortised cost before modification	2021 Net modification loss	2021 Gross carrying amount at year-end[1]
Modifications on loans and advances – Retail bank						
Debt review	1 794 309	657 443	1 078	1 627 014	503 508	–
Interest refund	—	—	—	10 531 810	403 754	2 523 141
Interest rate change	120 152	3 080	66 314	296 000	8 300	47 218
Insurance premium relief	—	—	—	5 562 019	13 830	3 245 972
Total modified loans	1 914 461	660 523	67 392	18 016 843	929 392	5 816 331

[1] This reflects the gross carrying amount at year-end of the loans cured to stage 1 during the year when a modification loss occurred.

COVID-19 debt relief measures provided to clients in the prior year

Due to the COVID-19 pandemic and its resultant impact on the economy, a liquidity crisis was experienced by a large number of clients across the group. In order to assist clients, the group provided various relief measures:

- New facilities being granted, including the COVID-19 SME loan guarantee scheme guaranteed by the SARB through our Business bank division
- Retail bank provided relief to clients who were affected by COVID-19, primarily by offering rescheduling through a self-help campaign. The relief offered was in the form of either a 3-month payment break or a variable instalment rescheduled agreement. The staging of these loans can be seen in the analysis of net loans and advances by stage – Retail bank table.

In addition to the COVID-19-related reschedules provided, Retail bank committed to refund interest charged during the first 3 months of the rescheduled agreement if certain criteria were met. Interest refunds were settled as follows:

- If the original rescheduled loan is still active, the refund will be paid into the original loan account
- If the client consolidated the original rescheduled loan, the refund will be paid into the consolidated loan account
- If neither the original nor the consolidated rescheduled loan account exists, the client refund will be paid into the active loan/access facility with the highest outstanding loan balance
- If the client does not have an active loan/access facility, the refund will be paid into either the Capitec primary savings account or an external bank account.

The interest refund affects the future contractual cash flow of loan agreements and was therefore treated as a loan modification in terms of IFRS 9 *Financial Instruments*.

Factors impacting and contributing to significant changes in the ECL during the period:

(i) Retail bank

- The gross loan book increased by 11% to R71.2 billion, ECL decreased by 2% and net loans and advances increased by 16%.
- 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. 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).
- The 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 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 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. 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.

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Factors impacting and contributing to significant changes in the ECL during the period: continued

(ii) Business bank

- Gross business loans and advances increased by 14%, ECL on business loans increased by 31% and net loans and advances increased by 12%.
- Stage 1 gross business loans and advances increased by 12%, stage 2 increased by 19% and stage 3 increased by 19%.
- The up-to-date loan SICR balances increased from R55 million to R249 million and was primarily attributable to the downgrade of a few large client groups. The downgrades specifically resulted in a movement of R237 million which was partially offset by other book movements which brought the increase in up-to-date SICR balances to R194 million.
- Gross credit impairments on business loans, comprising loans written off and the movement in ECL charged to the credit impairment line, decreased from R285 million to R197 million.
- New business loans of R51.6 billion (2021: R47.4 billion), contributed R98.7 million (2021: R60.9 million) to the ECL at 28 February 2022.
- Overall ECL coverage increased by 1.3% to 9.9%. The slight increase in the total coverage ratio is due to the new methodology which was developed during the current financial year. The new methodology determined the required ECL given an expected increase in profitability of default across the loan book due to the stressed macroeconomic variables as disclosed in note 3.
- Coverage for stage 1 decreased 0.2% to 3.4%, while the coverage ratio for stage 2 and stage 3 increased by 8.4% and 3.3%, respectively. The increase in the stage 2 coverage ratio is directly attributable to the forward-looking information which is now allocated on an account basis.
- Gross mortgage loans and advances increased 20% and the ECL on mortgage loans decreased by 8% and net loans and advances increased by 21%.
- Stage 1 gross mortgage loans and advances increased by 26%, stage 2 decreased by 18% and stage 3 increased by 18%. The movements in the categories are predominantly driven by the performance of the COVID-19-related reschedules. The stage 1 movement is due to the rehabilitation of the COVID-19-related reschedules as well as an increase in new loan sales.
- Credit impairments on mortgage loans, comprising loans written off and the movement in ECL charged to the credit impairment line, decreased from R120 million to R8 million.
- New mortgage loans of R2.3 billion (2021: R1.6 billion), contributed R18.4 million (2021: R20.4 million) to the ECL at 28 February 2022.
- The overall ECL coverage decreased by 0.7% to 2.6%. The improvement in the quality of the loan book compared to the 2021 led to the overall decrease in the coverage ratio. The stage 1 book now comprise 84% (2021: 80%) of the total loan book.
- Coverage for stage 1 and stage 3 decreased by 0.5% and 3.7%, respectively, while the coverage ratio for stage 2 increased by 2.9% to 10.5%. The increase in the stage 2 is directly attributable to the forward-looking information which is now allocated on an account basis.

Analysis of provision for ECL – Retail bank

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Balance as at 1 March 2021	3 637 858	3 135 151	10 411 194	17 184 203
Movement in the income statement[1]				
New loan sales	1 840 587	1 107 139	1 695 147	4 642 873
Stage 1 to stage 2	(224 059)	696 974	—	472 915
Stage 1 to stage 3	(287 597)	—	2 082 763	1 795 166
Stage 2 to stage 3	—	(469 912)	892 296	422 384
Stage 2 to stage 1	137 496	(845 947)	—	(708 451)
Stage 3 to stage 1	64 190	—	(402 117)	(337 927)
Stage 3 to stage 2	—	101 036	(222 817)	(121 781)
Remain in same stage	(216 808)	(476 208)	305 277	(387 739)
Loans and advances settled in the current year	(585 155)	(443 672)	(868 815)	(1 897 642)
Modifications	—	—	(402 171)	(402 171)
Write-offs	(35 906)	(136 199)	(3 475 296)	(3 647 401)
Change in forward-looking information[2]	495 186	423 541	(1 156 748)	(238 021)
Balance as at 28 February 2022	**4 825 792**	**3 091 903**	**8 858 713**	**16 776 408**
2021				
Balance as at 1 March 2020	3 304 390	1 711 423	8 408 898	13 424 711
Movement in the income statement[1]				
New loan sales	1 355 747	643 740	1 039 001	3 038 488
Stage 1 to stage 2	(498 952)	1 171 991	—	673 039
Stage 1 to stage 3	(586 603)	—	3 108 927	2 522 324
Stage 2 to stage 3	—	(453 746)	802 295	348 549
Stage 2 to stage 1	54 996	(267 732)	—	(212 736)
Stage 3 to stage 1	40 350	—	(199 290)	(158 940)
Stage 3 to stage 2	—	122 069	(266 655)	(144 586)
Remain in same stage	(305 472)	(118 757)	596 657	172 428
Loans and advances settled in the current year	(575 914)	(170 427)	(654 895)	(1 401 236)
Modifications	—	—	(259 690)	(259 690)
Write-offs	(58 704)	(191 352)	(3 048 006)	(3 298 062)
Change in forward-looking information[2]	908 020	687 942	883 952	2 479 914
Balance as at 28 February 2021	3 637 858	3 135 151	10 411 194	17 184 203

[1] *Movement in the income statement was calculated based on the stage of loans at the beginning and end of the year.*
[2] *Refer to note 3 for detail regarding the changes in forward-looking information.*

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Credit risk exposure continued

Analysis of provision for ECL – Business bank

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Business loans				
Balance as at 1 March 2021	159 255	85 261	222 581	467 097
Movement in the income statement[1]				
New loan sales	64 468	16 688	17 514	98 670
Stage 1 to stage 2	(17 349)	53 047	—	35 698
Stage 1 to stage 3	(1 358)	—	44 078	42 720
Stage 2 to stage 3	—	(6 749)	11 474	4 725
Stage 2 to stage 1	823	(7 533)	—	(6 710)
Stage 3 to stage 1	17	—	(795)	(778)
Stage 3 to stage 2	—	11	(41)	(30)
Remain in same stage	31 082	(34)	35 715	66 763
Loans and advances settled in the current year	(19 065)	(8 421)	(3 464)	(30 950)
Write-offs	—	—	(45 529)	(45 529)
Change in forward-looking information	(47 354)	29 152	(3 345)	(21 547)
Balance as at 28 February 2022	170 519	161 422	278 188	610 129
2021				
Business loans				
Balance as at 1 March 2020	77 180	26 080	127 073	230 333
Movement in the income statement[1]				
New loan sales	48 145	4 976	7 751	60 872
Stage 1 to stage 2	(26 347)	65 959	—	39 612
Stage 1 to stage 3	(1 052)	—	58 801	57 749
Stage 2 to stage 3	—	(13 794)	25 982	12 188
Stage 2 to stage 1	17	(941)	—	(924)
Stage 3 to stage 1	41	—	(2 213)	(2 172)
Stage 3 to stage 2	—	—	—	—
Remain in same stage	67 450	6 407	55 314	129 171
Loans and advances settled in the current year	(6 179)	(3 426)	(43 149)	(52 754)
Write-offs	—	—	(20 843)	(20 843)
Change in model assumptions and methodology	—	—	13 865	13 865
Balance as at 28 February 2021	159 255	85 261	222 581	467 097

[1] *Movement in the income statement was calculated based on the stage of loans at the beginning and end of the year.*

R'000	Stage 1	Stage 2	Stage 3	Total
2022				
Mortgage loans				
Balance as at 1 March 2021	45 595	53 127	87 579	186 301
Movement in the income statement[1]				—
New loan sales	9 321	8 480	561	18 362
Stage 1 to stage 2	(436)	1 427	—	991
Stage 1 to stage 3	(127)	—	6 173	6 046
Stage 2 to stage 3	—	(2 329)	4 003	1 674
Stage 2 to stage 1	155	(4 738)	—	(4 583)
Stage 3 to stage 1	9	—	(812)	(803)
Stage 3 to stage 2	—	—	—	—
Remain in same stage	3 969	(5 742)	22 837	21 064
Loans and advances settled in the current year	(6 206)	(4 350)	(16 519)	(27 075)
Write-offs	—	—	(20 897)	(20 897)
Change in forward-looking information	(26 452)	14 530	3 126	(8 796)
Balance as at 28 February 2022	25 828	60 405	86 051	172 284
2021				
Mortgage loans				
Balance at acquisition	7 867	15 779	61 489	85 135
Movement in the income statement[1]				—
New loan sales	17 288	3 139	—	20 427
Stage 1 to stage 2	(802)	39 872	—	39 070
Stage 1 to stage 3	(148)	—	12 341	12 193
Stage 2 to stage 3	—	(8 369)	10 742	2 373
Stage 2 to stage 1	103	(379)	—	(276)
Stage 3 to stage 1	14	—	(471)	(457)
Stage 3 to stage 2	—	—	—	—
Remain in same stage	21 876	3 193	28 150	53 219
Loans and advances settled in the current year	(603)	(108)	(12 096)	(12 807)
Write-offs	—	—	(18 116)	(18 116)
Change in model assumptions and methodology	—	—	5 540	5 540
Balance as at 28 February 2021	45 595	53 127	87 579	186 301

[1] *Movement in the income statement was calculated based on the stage of loans at the beginning and end of the year.*

Notes to the financial statements continued

Year ended 28 February 2022

8. Net loans and advances continued

Detailed analysis of leases (rental assets) included in business loans

R'000	GROUP 2022	2021
Gross investment in lease receivables		
Less than 1 year	**552 931**	530 261
1 to 2 years	**433 712**	416 800
2 to 3 years	**307 164**	291 143
3 to 4 years	**183 184**	159 631
4 to 5 years	**73 506**	46 977
More than 5 years	**1 118**	1 133
Gross investment in lease receivables	**1 551 615**	1 445 945
Unearned finance income	**(224 728)**	(220 860)
Net investment in lease receivables	**1 326 887**	1 225 085
Net lease receivables		
Less than 1 year	**441 348**	426 413
1 to 5 years	**884 549**	798 021
More than 5 years	**990**	651
Net investment in lease receivables	**1 326 887**	1 225 085
Less: ECL	**(97 722)**	(94 812)
Net lease receivables	**1 229 165**	1 130 273

These agreements consist of rental finance and instalment sale agreements. The rental finance agreements are typically granted to our Business bank clients to lease security equipment, copiers and telecommunication equipment. The instalment sale agreements are granted to finance the motor vehicles and equipment of our Business bank clients. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R97.7 million (2021: R94.8 million).

Analysis of the amounts recognised in the income statement for rental finance

R'000	GROUP 2022	2021
Selling profit or loss	**4 675**	4 650
Finance income on the net investment in leases	**135 692**	143 835
Income relating to variable lease payments not included in the measurement of the net investment in leases	**18 535**	18 889

Significant changes in the carrying amount of the net investment in finance leases for the year

New rental agreements amounted to R610.0 million (2021: R351.0 million), while the cost of early-settled deals was R62.8 million (2021: R53.2 million). The capital portion of bad debts written off was R25.4 million (2021: R28.8 million).

Collateral held as security and other credit enhancements relating to credit impaired financial assets

R'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
2022				
Business loans	**427 756**	**(278 188)**	**149 568**	**149 568**
Mortgage loans[1]	**473 379**	**(86 051)**	**387 328**	**387 328**
	901 135	**(364 239)**	**536 896**	**536 896**
2021				
Business loans	360 500	(222 581)	137 919	179 608
Mortgage loans[1]	399 718	(87 579)	312 139	398 833
	760 218	(310 160)	450 058	578 441

[1] *Where the fair value of the collateral is greater than the carrying amount, the fair value of the collateral has been limited to the carrying amount.*

Fair value of collateral and other credit enhancements is determined by referencing the realisable value of security held before adjusting for expected recoveries.

All the Business bank clients are accorded a risk grading. The risk grading is dependent on the client's creditworthiness and standing with the group, and is subject to ongoing assessment of the client's financial standing and the acceptability of their dealings with the group, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value, nil for unlisted shares
Pledge and cession of assets (specific and general)	Variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	100% of asset value
Vacant land	50% of professional valuation
Residential properties	60% – 80% of professional valuation
Commercial and industrial properties	55% – 70% of professional valuation
Catering, industrial and office equipment	Variable depending on asset type and depreciated value
Trucks	Variable depending on asset type and depreciated value
Earthmoving equipment	Variable depending on asset type and depreciated value
Motor vehicles	Variable depending on asset type and depreciated value
General notarial bond	Variable depending on asset type and depreciated value
Special notarial bond	Variable depending on asset type and depreciated value

All collateral held by the bank in respect of a loan and advance can be realised in accordance with the terms of the agreement or the facility conditions applicable thereto. Cash collateral and pledged assets that can be realised in accordance with the terms of the pledge and cession or suretyship are applied in reduction of related exposures. Pledged assets, other than cash or cash equivalent collateral and tangible security articles, are appropriated and disposed of, where necessary, after legal action and in compliance with the applicable Court rules and directives.

A client in default will be advised of the default and afforded an opportunity to regularise the arrears. Failing normalisation of the account, legal action and repossession procedures will be followed and all attached assets will be disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed liquidator or trustee will dispose of all assets.

At the end of the financial year ended 28 February 2022, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R5.9 billion (2021: R5.3 billion).

Notes to the financial statements continued

Year ended 28 February 2022

9. Other receivables

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Financial receivables	3 125 994	1 515 910	1 694	1 972
Deposits	40 965	32 199	—	—
SARB settlement balance[3]	1 559 299	396 892	—	—
Other receivables[1][3]	1 047 907	562 087	1 694	1 972
Funeral plan income receivable[3]	477 823	524 732	—	—
Non-financial receivable	158 990	121 368	440	423
Prepayments[2]	158 990	121 368	440	423
Total other receivables	3 284 984	1 637 278	2 134	2 395
Current portion	3 264 991	1 599 081	2 134	2 395
Non-current portion	19 993	38 197	—	—
Maximum exposure to credit risk	3 284 984	1 637 278	2 134	2 395

(1) Other receivables includes sundry debtors.
(2) Prepayments relate to IT and business development expenses.
(3) While other receivables are also subject to the impairment requirements of IFRS 9, the impairment loss was considered immaterial given the short-dated maturity of the balances.

10. Net insurance receivable

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Opening balance	987 116	217 423	—	—
Underwriting profit after tax[1]	1 539 578	965 234	—	—
Additional investment	—	100 000	—	—
Distribution paid to the group	(1 848 759)	(295 541)	—	—
Net insurance receivable[2]	677 935	987 116	—	—
Current portion	677 935	987 116	—	—

(1) Refer to note 24 where a breakdown of the underwriting profit after tax is provided.
(2) The amount receivable from the insurer represents the right to a residual interest in the cell captive reduced by the distributions declared by the cell captive insurer on the specific class of preference shares held by the group.

11. Financial assets – equity instruments at FVOCI

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	69 340	101 139	—	—
Additions	1 725	—	—	—
Fair value adjustment[2][3]	1 615	(31 799)	—	—
Total financial assets – equity instruments at FVOCI[1]	72 680	69 340	—	—

(1) Financial assets at FVOCI comprise unlisted equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group consider this classification to be more relevant. The unlisted equity securities mainly relate to the group's investment in African Bank Holdings Limited. Capitec Bank Limited is a participant in a consortium that recapitalised African Bank Holdings Limited. The other members of the consortium comprise the Public Investment Corporation and 5 other South African banks.
(2) The fair value of financial assets that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis.
(3) Disposals of R1.1 million in the comparative figure has been included in line fair value adjustment.

12. Interest in subsidiaries, associates and joint ventures

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Interest in subsidiaries				
Investment in unlisted subsidiaries at cost	—	—	6 020 425	5 709 068
Loans from subsidiaries[1]	—	—	(13 680)	(16 703)
Total interest in subsidiaries	—	—	6 006 745	5 692 365

Subsidiaries	Domicile	Holding	Nature of business
Capitec Bank Limited[2]	South Africa	100% (2021: 100%)	Banking
Mercantile Rental Finance Proprietary Limited[4]	South Africa	100% (2021: 100%)	Rental finance
Capitec Properties Proprietary Limited	South Africa	100% (2021: 100%)	Property
Capitec Ins Proprietary Limited (previously known as Portion 2 of Lot 8 Sandown Proprietary Limited)[3]	South Africa	100% (2021: 100%)	Investment holding – insurance cell captives
K2021924456 (South Africa) Proprietary Limited	South Africa	100% (2021: Nil)	Dormant
K2021926983 (South Africa) Proprietary Limited	South Africa	100% (2021: Nil)	Dormant
Capitec Bank Holdings Share Trust	South Africa	Nil (2021: Nil)	Share incentive trust

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Capitec Bank Limited[2]	—	—	5 728 425	5 709 068
Capitec Ins Proprietary Limited (previously known as Portion 2 of Lot 8 Sandown Proprietary Limited)	—	—	108 000	—
K2021926983 (South Africa) Proprietary Limited	—	—	184 000	—
Total investment in unlisted subsidiaries at cost	—	—	6 020 425	5 709 068
Capitec Bank Limited				
Opening balance	—	—	5 709 068	5 726 525
Izindaba Ezinhle Employee Share Scheme (note 39.2)	—	—	23 831	—
Preference shares repurchased	—	—	(4 474)	(17 457)
Total interest in Capitec Bank Limited	—	—	5 728 425	5 709 068
Capitec Ins Proprietary Limited[3]				
Opening balance	—	—	—	—
Interest acquired (capitalisation)	—	—	108 000	—
Total interest in Capitec Ins Proprietary Limited	—	—	108 000	—
K2021926983 (South Africa) Proprietary Limited				
Opening balance	—	—	—	—
Interest acquired	—	—	184 000	—
Total interest in K2021926983 (South Africa) Proprietary Limited	—	—	184 000	—

(1) Loans from wholly-owned subsidiaries are interest free and repayable on demand. These balances have been eliminated on consolidation.
(2) All holdings are in the ordinary and preference share capital of the subsidiaries. Preference shares were repurchased by the subsidiary during the year.
(3) The acquisition of the 100% holdings in Capitec Ins Proprietary Limited resulted in the change of an indirect holding to a direct holding as a subsidiary. Refer to note 44.
(4) Indirect holding.

Notes to the financial statements continued

Year ended 28 February 2022

12. Interest in subsidiaries, associates and joint ventures continued

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Interest in associates				
Cream Finance Holdings Limited				
Opening balance	217 391	326 650	217 391	283 073
Share of profit/(loss)	24 183	(7 530)	—	—
Impairment of investment in associate	—	(122 202)	—	(65 682)
Foreign currency translation reserve	(18 852)	20 473	—	—
Total interest in Cream Finance	222 722	217 391	217 391	217 391
Praelexis Proprietary Limited				
Opening balance	22 123	25 311	25 000	25 000
Share of loss	(92)	(3 188)	—	—
Total interest in Praelexis	22 031	22 123	25 000	25 000
Interest in joint ventures				
Imvelo Ventures Proprietary Limited				
Opening balance	137 495	108 540	—	—
Interest acquired	—	25 300	—	—
Share of profit	12 098	3 655	—	—
Total interest in Imvelo Ventures	149 593	137 495	—	—
Total interest in associates and joint ventures	394 346	377 009	242 391	242 391

Associates/joint ventures	Domicile	Holding	Nature of business
Cream Finance Holdings Limited[(1)]	Cyprus	40.86% (2021: 40.86%)	Lending
Praelexis Proprietary Limited	South Africa	33.33% (2021: 33.33%)	Artificial intelligence
Imvelo Ventures Proprietary Limited	South Africa	17.50% (2021: 17.50%)	B-BBEE investment

[(1)] *The share of profit from 1 January 2021 to 31 December 2021 is included. These numbers are the audited numbers and due to Capitec's stringent reporting timeline, there is a timing difference of 2 months, however, their results are for a 12-month period and the changes after December are not material to the group.*

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Cream Finance Holdings Limited				
Income statement				
Revenue	789 085	954 311	789 085	954 311
Interest income	6 375	3 174	6 375	3 174
Interest expense	(5 027)	(24 408)	(5 027)	(24 408)
Depreciation and amortisation	(33 139)	(34 455)	(33 139)	(34 455)
Income tax expense	(22 277)	(2 272)	(22 277)	(2 272)
Profit/(Loss) from continuing operations after tax	59 107	(15 830)	59 107	(15 830)
Other comprehensive income/(loss)	3 697	(27 012)	3 697	(27 012)
Total comprehensive income/(loss)	62 804	(42 842)	62 804	(42 842)
Reconciliation to carrying amounts				
Non-current assets	271 854	277 410	271 854	277 410
Current assets	870 124	871 334	870 124	871 334
Cash and cash equivalent	183 879	179 388	183 879	179 388
Non-current liabilities	(66 327)	(120 825)	(66 327)	(120 825)
Non-current liabilities (excluding trade payables and provisions)	(66 327)	(120 825)	(66 327)	(120 825)
Current liabilities	(822 372)	(825 905)	(822 372)	(825 905)
Current liabilities (excluding trade payables and provisions)	(726 737)	(753 901)	(726 737)	(753 901)
Net assets at 100%	253 279	202 014	253 279	202 014

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
The group's share of net assets at acquisition	86 713	86 713	86 713	86 713
Difference in initial cost versus share of net assets acquired	196 360	196 360	196 360	196 360
Cost of investment in Cream Finance	283 073	283 073	283 073	283 073
Cumulative share of profit and foreign currency translation reserve	61 851	56 520	—	—
Cumulative impairment of investment in associate	(122 202)	(122 202)	(65 682)	(65 682)
Carrying amount of investment in Cream Finance	222 722	217 391	217 391	217 391
Praelexis Proprietary Limited				
Income statement				
Revenue	23 730	16 905	23 730	16 905
Loss from continuing operations after tax	(3 009)	(6 832)	(3 009)	(6 832)
Total comprehensive loss	(3 009)	(6 832)	(3 009)	(6 832)
Reconciliation to carrying amounts				
Non-current assets	3 122	3 214	3 122	3 214
Current assets	23 414	25 729	23 414	25 729
Non-current liabilities	—	—	—	—
Current liabilities	(1 424)	(822)	(1 424)	(822)
Net assets at 100%	25 112	28 121	25 112	28 121
The group's share of net assets at acquisition	11 374	11 374	11 374	11 374
Difference in initial cost versus share of net assets acquired	13 626	13 626	13 626	13 626
Cost amount of investment in Praelexis	25 000	25 000	25 000	25 000
Cumulative share of loss	(2 969)	(2 877)	—	—
Carrying amount of investment in Praelexis	22 031	22 123	25 000	25 000
Imvelo Ventures Proprietary Limited				
Income statement				
Revenue	9 529	14 727	—	—
Profit from continuing operations after tax	68 488	21 535	—	—
Total comprehensive income	68 488	21 535	—	—
Reconciliation to carrying amounts				
Non-current assets	246 104	112 510	—	—
Current assets	10 762	60 018	—	—
Non-current liabilities	(18 803)	(4 350)	—	—
Current liabilities	(1 433)	(681)	—	—
Net assets at 100%	236 630	167 497	—	—
The group's share of net assets at acquisition	29 312	29 312	—	—
Difference in initial cost versus share of net assets acquired	103 190	103 190	—	—
Cost of investment in Imvelo Ventures	132 502	132 502	—	—
Cumulative share of profit	17 091	4 993	—	—
Carrying amount of investment in Imvelo Ventures	149 593	137 495	—	—

Notes to the financial statements continued

Year ended 28 February 2022

13. Property and equipment

R'000	Assets under construction – building	Land and buildings	Computer equipment	Office equipment and vehicles	Total
	GROUP				
2022					
Opening net book value	—	962 172	1 256 834	727 152	2 946 158
Additions	—	2 834	486 328	256 390	745 552
Derecognition due to equipment destroyed in civil the unrest[1]	—	—	(43 583)	(14 369)	(57 952)
Reversal of impairment	—	4 124	—	—	4 124
Disposals	—	—	(8 035)	(5 123)	(13 158)
Depreciation charge	—	(24 332)	(312 872)	(265 965)	(603 169)
Net book value at the end of the year	—	944 798	1 378 672	698 085	3 021 555
Cost	—	993 686	3 060 985	2 192 342	6 247 013
Accumulated depreciation	—	(48 888)	(1 682 313)	(1 494 257)	(3 225 458)
Net book value at the end of the year	—	944 798	1 378 672	698 085	3 021 555
Non-current portion	—	944 798	1 378 672	698 085	3 021 555
2021					
Opening net book value	688 288	350 802	1 247 901	730 200	3 017 191
Additions	—	27 418	171 531	344 366	543 315
Transfers	(688 288)	608 523	22 493	57 272	—
Disposals	—	—	(3 233)	(17 773)	(21 006)
Depreciation charge	—	(24 571)	(181 858)	(386 913)	(593 342)
Net book value at the end of the year	—	962 172	1 256 834	727 152	2 946 158
Cost	—	987 257	2 767 793	2 045 712	5 800 762
Accumulated depreciation	—	(25 085)	(1 510 959)	(1 318 560)	(2 854 604)
Net book value at the end of the year	—	962 172	1 256 834	727 152	2 946 158
Non-current portion	—	962 172	1 256 834	727 152	2 946 158

[1] *Civil unrest occurred in the KwaZulu-Natal and Gauteng provinces of South Africa during the latter part of July 2021, resulting in the destruction of equipment. The group had short-term insurance cover to reduce the risks of civil unrest from Sasria SOC Limited. The destruction of equipment resulted in the derecognition of the assets as it was not probable that future economic benefits from the assets destroyed would flow to the group. A loss of R57.9 million was recognised in operating expenses. Compensation received from Sasria SOC Limited amounted to R198.2 million and was recognised in other income. Full details are set out in note 43 to the financial statements.*

14. Right-of-use assets

R'000	Premises	Total
	GROUP	
2022		
Opening balance	2 052 985	2 052 985
Additions	353 218	353 218
Terminations and modifications	(99 346)	(99 346)
Depreciation charge	(397 422)	(397 422)
Net book value at the end of the year	1 909 435	1 909 435
Cost	3 152 470	3 152 470
Accumulated depreciation	(1 243 035)	(1 243 035)
Net book value at the end of the year	1 909 435	1 909 435
Current portion	298 570	298 570
Non-current portion	1 610 865	1 610 865
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	72 161	72 161
2021		
Opening balance	2 460 025	2 460 025
Additions	195 489	195 489
Terminations and modifications	(195 200)	(195 200)
Depreciation charge	(407 329)	(407 329)
Net book value at the end of the year	2 052 985	2 052 985
Cost	2 929 017	2 929 017
Accumulated depreciation	(876 032)	(876 032)
Net book value at the end of the year	2 052 985	2 052 985
Current portion	350 182	350 182
Non-current portion	1 702 803	1 702 803
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	61 177	61 177

Notes to the financial statements continued

Year ended 28 February 2022

15. Intangible assets

	GROUP					
R'000	Computer software[1]	Internally generated intangible assets[2]	Core deposit intangible	Client relationships	Goodwill[3]	Total
2022						
Opening net book value	467 622	84 454	65 393	14 346	849 487	1 481 302
Additions	116 988	—	—	—	—	116 988
Disposals	(26 789)	—	—	—	—	(26 789)
Amortisation	(200 275)	(9 154)	(11 536)	(2 531)	—	(223 496)
Net book value at the end of the year	357 546	75 300	53 857	11 815	849 487	1 348 005
Cost	1 325 450	91 549	80 780	17 721	849 487	2 364 987
Accumulated amortisation	(967 904)	(16 249)	(26 923)	(5 906)	—	(1 016 982)
Net book value at the end of the year	357 546	75 300	53 857	11 815	849 487	1 348 005
2021						
Opening net book value	436 577	48 927	76 933	16 877	794 487	1 373 801
Additions	251 237	42 622	—	—	—	293 859
Acquisition of subsidiary	—	—	—	—	55 000	55 000
Disposals	(90)	—	—	—	—	(90)
Amortisation	(220 102)	(7 095)	(11 540)	(2 531)	—	(241 268)
Net book value at the end of the year	467 622	84 454	65 393	14 346	849 487	1 481 302
Cost	1 223 648	91 549	80 780	17 721	849 487	2 263 185
Accumulated amortisation	(756 026)	(7 095)	(15 387)	(3 375)	—	(781 883)
Net book value at the end of the year	467 622	84 454	65 393	14 346	849 487	1 481 302

(1) Computer software comprises primarily of the main banking infrastructure applications, which are purchased from our respective vendors.

(2) Internally generated intangible assets comprise assets under construction relating to SAP software, which went live during the prior year. Refer to note 37 for capital commitments.

(3) Goodwill is allocated to the Mercantile CGU and is tested annually for impairment. Refer to note 3.1.3.

16. Deferred income tax asset

	GROUP								
R'000	Impairments, provisions and accruals	Share-based payments	Other reserves	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Pre-payments	Total
2022									
Balance at the beginning of the year	2 053 309	44 211	(311)	11 273	(54 517)	117 108	(22 327)	(4 110)	2 144 636
Income statement charge	614 854	—	—	—	(3 042)	29 277	3 939	(20 639)	624 389
Credited directly to equity	—	51 366	—	—	—	—	—	—	51 366
Debited to equity through other comprehensive income	—	—	(480)	(6 548)	—	—	—	—	(7 028)
Tax rate change[1]	(40 486)	—	—	—	2 100	(5 567)	—	—	(43 953)
Balance at the end of the year	2 627 677	95 577	(791)	4 725	(55 459)	140 818	(18 388)	(24 749)	2 769 410
Estimated to be recovered within 1 year									1 538 708
Estimated to be recovered after 1 year									1 230 702
Balance at the end of the year									2 769 410
2021									
Balance at the beginning of the year[2]	1 848 010	151 242	(158)	8 201	(40 748)	(52 231)	(26 267)	(25 476)	1 862 573
Income statement charge[2]	205 178	—	—	—	(13 769)	169 339	3 940	21 366	386 054
Debited directly to equity	—	(107 031)	—	—	—	—	—	—	(107 031)
Credited/(Debited) to equity through other comprehensive income	121	—	(153)	3 072	—	—	—	—	3 040
Balance at the end of the year	2 053 309	44 211	(311)	11 273	(54 517)	117 108	(22 327)	(4 110)	2 144 636
Estimated to be recovered within 1 year									1 639 431
Estimated to be recovered after 1 year									505 205
Balance at the end of the year									2 144 636

(1) Deferred income taxes are calculated on all temporary differences under the liability method. The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable. The tax rate applied to temporary differences that will not realise during the 2023 financial year is 27% (2021: 28%) based on a tax rate change announced by the Minister of Finance on 24 February 2021. This is viewed to have been substantively enacted. The tax rate applied to the remainder of the temporary differences is 28% (2021: 28%). The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

(2) As at 1 March 2020 there was also a deferred tax liability of R72.986 million which was realised through profit or loss during the 2021 financial year. The liability related mainly to capital allowances.

Notes to the financial statements continued

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17. Deposits and wholesale funding

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Deposits				
By maturity				
Within 1 month	93 089 147	82 027 944	—	—
1 to 3 months	5 282 090	4 977 321	—	—
3 months to 1 year	16 063 299	15 979 759	—	—
1 to 2 years	7 690 719	7 939 721	—	—
2 to 5 years	10 273 122	7 607 166	—	—
More than 5 years	—	471	—	—
Total deposits	132 398 377	118 532 382	—	—
Wholesale funding				
By maturity				
Within 1 month	64 134	46 386	—	—
1 to 3 months	23 115	1 045 809	—	—
3 months to 1 year	155 950	89 581	—	—
1 to 2 years	144 626	200 032	—	—
2 to 5 years	1 624 683	973 969	—	—
More than 5 years	47 685	20 269	—	—
Total wholesale funding	2 060 193	2 376 046	—	—
By nature				
Deposits				
Call accounts	79 634 626	71 164 260	—	—
Current accounts	9 532 075	6 948 321	—	—
Term and notice deposits	3 015 519	3 746 237	—	—
Foreign currency deposits	1 303 148	1 243 321	—	—
Fixed deposits	38 913 009	35 430 243	—	—
Total deposits	132 398 377	118 532 382	—	—
Wholesale funding				
Listed senior bonds[(1)]	1 254 438	1 519 970	—	—
Unlisted negotiable instruments	122 807	140 463	—	—
Other wholesale funding	682 948	715 613	—	—
Total wholesale funding	2 060 193	2 376 046	—	—
Total deposits and wholesale funding	134 458 570	120 908 428	—	—

[(1)] *Comprises notes listed on Capitec Bank's domestic medium-term note (DMTN) programme registered on the JSE's interest rate board.*

Description	Nominal amount	Issue date	Term	Rate
2022				
Listed senior bonds				
Senior debt – listed bonds – floating rate[(1)]	R500 million[(2)]	30 April 2019	5 years	3-month JIBAR plus 1.50%
Senior debt – listed bonds – floating rate[(1)]	R750 million	2 November 2021	3 years	3-month JIBAR plus 1.20%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R46 million	8 June 2017	5 years	5-year mid-swap plus 2.40%
Negotiable certificate of deposit – fixed rate	R33 million	22 January 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R41 million	10 April 2018	5 years	5-year mid-swap plus 2.00%
Other wholesale funding				
Bilateral loan – fixed rate	R90 million	1 December 2004	20 years	Fixed rate of 11% nominal annual compounded monthly
Call deposit – floating rate	R28 million	26 January 2018	Call	Linked to repo
COVID-19 Loan Guarantee Scheme	R620 million	Various between 2020 – 2021	5 years	Linked to repo
2021				
Listed senior bonds				
Senior debt – listed bonds – fixed rate[(1)]	R500 million	6 May 2016	5 years	R208 government bond plus 2.40%
Senior debt – listed bonds – floating rate[(1)]	R500 million[(2)]	21 May 2018	3 years	3-month JIBAR plus 1.53%
Senior debt – listed bonds – floating rate[(1)]	R500 million[(2)]	30 April 2019	5 years	3-month JIBAR plus 1.50%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R46 million	8 June 2017	5 years	5-year mid-swap plus 2.40%
Negotiable certificate of deposit – fixed rate	R33 million	22 January 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R12 million	9 March 2018	3 years	3-year mid-swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R41 million	10 April 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R5 million	10 April 2018	3 years	3-year mid-swap plus 1.50%
Other wholesale funding				
Bilateral loan – fixed rate	R90 million	1 December 2004	20 years	Fixed rate of 11% nominal annual compounded monthly
Call deposit – floating rate	R28 million	26 January 2018	Call	Linked to repo
COVID-19 Loan Guarantee Scheme	R620 million	Various between 2020 – 2021	5 years	Linked to repo

[(1)] *Comprises notes listed on Capitec Bank's DMTN programme registered on the JSE's interest rate board.*

[(2)] *Wholesale funding issued at variable rates is hedged through interest rate swap agreements as set out in note 42. The nominal value of hedged funding totalled R0.5 billion (2021: R1.0 billion) and consists of:*
Listed senior bonds: R0.5 billion (2021: R1.0 billion).

Notes to the financial statements continued

Year ended 28 February 2022

17. Deposits and wholesale funding continued

R'000	Senior listed bonds	Asset-backed notes	Total
2022			
Reconciliation of movements in cash flows arising from financing activities			
Opening balance as at 1 March 2021	1 519 970	—	1 519 970
Initiation fees	(739)	—	(739)
Issue of institutional bonds and other funding	750 000	—	750 000
Redemption of institutional bonds and other funding	(1 000 000)	—	(1 000 000)
Interest expense accrued	76 823	—	76 823
Swap interest accrued	(22 819)	—	(22 819)
Interest paid	(68 797)	—	(68 797)
Balance as at 28 February 2022	1 254 438	—	1 254 438
SARB loan			568 882
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)			236 873
Total wholesale funding			2 060 193
2021			
Reconciliation of movements in cash flows arising from financing activities			
Opening balance as at 1 March 2020	2 989 725	357 383	3 347 108
Redemption of institutional bonds and other funding	(1 450 000)	(357 383)	(1 807 383)
Interest expense accrued	197 311	—	197 311
Swap interest accrued	(43 566)	—	(43 566)
Interest paid	(173 500)	—	(173 500)
Balance as at 28 February 2021	1 519 970	—	1 519 970
SARB loan			620 364
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)			235 712
Total wholesale funding			2 376 046

18. Other liabilities

	GROUP		COMPANY	
R'000	2022	2021	2022	2021
Trade payables	2 209 917	1 729 670	645	441
Dividends payable	8 263	5 552	8 263	5 552
Accruals (including bonuses)	2 166 451	896 256	1 617	—
Share appreciation rights (SARs) (per note 41)	361 228	186 163	—	—
Total other liabilities	4 745 859	2 817 641	10 525	5 993
Current portion	4 355 841	2 425 198	10 525	5 993
Non-current portion	390 018	392 443	—	—

19. Lease liabilities

	GROUP		COMPANY	
R'000	2022	2021	2022	2021
Lease liabilities	2 424 694	2 500 977	—	—
Total lease liabilities	2 424 694	2 500 977	—	—
Reconciliation of lease liabilities				
Balance at the beginning of the year	2 500 977	2 794 847	—	—
Additions	363 646	192 660	—	—
Terminations and lease modifications	(119 812)	(238 271)	—	—
Interest	214 240	238 191	—	—
Lease payments	(534 357)	(486 450)	—	—
Interest paid	(214 240)	(238 191)	—	—
Repayments of capital	(320 117)	(248 259)	—	—
Balance at the end of the year	2 424 694	2 500 977	—	—
Maturity analysis – contractual undiscounted cash flows				
Less than 1 year	526 793	530 472	—	—
1 to 5 years	1 853 852	1 874 828	—	—
More than 5 years	962 616	1 150 296	—	—
Total undiscounted lease liabilities at year-end	3 343 261	3 555 596	—	—
Lease liabilities included in the statement of financial position at year-end				
Current portion	303 560	256 916	—	—
Non-current portion	2 121 134	2 244 061	—	—
Amounts recognised in profit or loss				
Interest on lease liability	214 240	238 191	—	—
Expense relating to short-term leases	18	629	—	—

Premises leases

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities. The leases for its branches typically run for a period of 5 years. The majority of the leases include an option to renew the lease for an additional period of the same duration after the end of the agreement term. The group includes extension options when determining the lease term as branches are a strategic part of the business.

Other leases

The leases are short-term and/or leases of low-value items. The group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Notes to the financial statements continued

Year ended 28 February 2022

20. Post-retirement medical benefits

Capitec Bank Limited (Business bank division) operates a post-retirement medical scheme. The scheme relates to retired employees of Mercantile Bank Limited. Independent actuaries value this scheme annually. It is the actuary's opinion that the plan is in a sound financial position. The scheme was last valued on 28 February 2022. The amounts recognised in the statement of financial position as part of employee benefit liabilities are as follows (refer to note 21):

	GROUP		COMPANY	
R'000	**2022**	**2021**	**2022**	**2021**
Present value of total service liabilities	**14 908**	16 203	**—**	—
Liability in the statement of financial position	**14 908**	16 203	**—**	—
The amounts recognised in the statements of comprehensive income are as follows:				
Net interest cost	**1 232**	1 473	**—**	—
Employee cost	**(1 848)**	(1 957)	**—**	—
Current service cost	**6**	6	**—**	—
Employer benefits payments	**(1 854)**	(1 963)	**—**	—
Total included in other comprehensive income	**(616)**	(484)	**—**	—
The amounts recognised in the statements of comprehensive income are as follows:				
Remeasurement of defined benefit obligation	**(679)**	(547)	**—**	—
Total included in other comprehensive income	**(679)**	(547)	**—**	—
Reconciliation of the movement in the present value of total service liabilities:				
Balance at the beginning of the year	**16 203**	17 234	**—**	—
Current service cost	**6**	6	**—**	—
Interest costs	**1 232**	1 473	**—**	—
Remeasurement of defined benefit obligation	**(679)**	(547)	**—**	—
Employer benefits payments	**(1 854)**	(1 963)	**—**	—
Balance at the end of the year	**14 908**	16 203	**—**	—
The principal actuarial assumptions used were as follows:				
Discount rate (%)	**9.8**	9.1	**—**	—
Rate of medical inflation (%)	**7.5**	5.8	**—**	—
Salary inflation (%)	**7.0**	5.3	**—**	—

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in the amount of R1 million (2021: R1.3 million) or a decrease of R0.9 million (2021: R1.2 million), respectively.

21. Employee benefit liabilities

	GROUP		
R'000	**Performance incentive scheme[(1)]**	**Post-retirement medical benefits**	**Total**
2022			
Balance at the beginning of the year	**123 223**	**16 203**	**139 426**
Additions	**194 452**	**1 238**	**195 690**
Used during the year	**(120 439)**	**(2 533)**	**(122 972)**
Balance at the end of the year	**197 236**	**14 908**	**212 144**
2021			
Balance at the beginning of the year	153 976	17 234	171 210
Additions	74 172	110	74 282
Used during the year	(104 925)	(1 141)	(106 066)
Balance at the end of the year	123 223	16 203	139 426

R'000	**2022**	**2021**
Current portion	**—**	38 480
Non-current portion	**212 144**	100 946

[(1)] Senior management qualifies for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in HEPS and, in order to foster a long-term approach by management, the bonus is paid out over a 3-year period. The bonuses that have been earned and will be paid out in the 2024 and 2025 financial years are included in employee benefit liabilities. The bonus to be paid in the 2023 financial year is included in accruals.

Notes to the financial statements continued

Year ended 28 February 2022

22. Share capital and premium

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Authorised				
Ordinary shares[1]				
500 000 000 shares of R0.01 each	5 000	5 000	5 000	5 000
Non-redeemable, non-cumulative and non-participating preference shares				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (conversion)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (write-off)[2]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Issued[3]				
Number of shares in issue per the shareholders' register	116 100	115 627	116 100	115 627
Number of shares in issue for accounting purposes[6]	115 627	115 627	115 627	115 627
115 626 991 (2021: 115 626 991) shares of R0.01 each at par	1 156	1 156	1 156	1 156
Share premium	5 647 864	5 647 864	5 647 864	5 647 864
Ordinary share capital and premium	5 649 020	5 649 020	5 649 020	5 649 020
566 864 (2021: 616 419) shares of R0.01 each at par	6	6	6	6
Share premium	51 161	55 635	51 161	55 635
Non-redeemable, non-cumulative, non-participating preference share capital and premium[4]	51 167	55 641	51 167	55 641
Total issued share capital and premium[4][5]	5 700 187	5 704 661	5 700 187	5 704 661

[1] At the AGM held on 28 May 2021, shareholders authorised that 5 781 350 shares equal to 5% of the issued ordinary shares of the company be placed under the control of the directors until the next AGM.

[2] In addition to the above authority, shareholders further authorised that loss-absorbent convertible capital securities to a maximum aggregate issue price not exceeding R1.5 billion, but subject to a conversion into ordinary shares not exceeding 10 600 000 ordinary shares (over and above the authority above), be placed under the control of the directors until the next AGM.

[3] All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 49 555 (2021: 193 402) preference shares with an original value of R4.5 million (par and premium) (2021: R17.5 million) were repurchased and cancelled during the year. The preference shares have been repurchased over the previous years due to the Basel 3 phase-out of qualifying preference share capital. As at 1 January 2022, none of the preference share capital qualifies for regulatory purposes in accordance with the Basel 3 phase-out timeline. The average price paid was R103.90 (2021: R100.41) per share.

[4] The preference shares carry a coupon rate of 83.33% (2021: 83.33%) of the prime rate on a face value of R100 per share. The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 80.24% (2021: 78.51%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital. Proceeds from the repurchase of preference shares amounted to R5.2 million (2021: R19.5 million).

[5] Refer to note 39 for detail regarding the acquisition of shares to settle share options. During the year, a loss of R25.5 million (R18.3 million after tax) (2021: R88.3 million (R63.6 million after tax)) was realised on settlement of share options as reflected in the statement of changes in equity.

[6] The 472 852 shares, that were issued in terms of the Izindaba Ezinhle Employee Share Scheme are deemed unissued for accounting purposes. At a company level, the cash received for 50% of the subscription price was recorded separately in equity. The additional share capital and share premium will be recognised for accounting purposes on expiry of the 5-year trade restriction. Full details are set out in note 39.2 to the financial statements.

23. Reserves

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Cash flow hedge reserve				
Balance at the beginning of the year	(29 244)	(21 345)	–	–
Amount recognised in other comprehensive income during the year	568	(57 488)	–	–
Amount reclassified from other comprehensive income to profit or loss for the year	22 819	46 517	–	–
	(5 857)	(32 316)	–	–
Deferred tax recognised in other comprehensive income during the year	(6 548)	3 072	–	–
Balance at the end of the year[1]	(12 405)	(29 244)	–	–
Other reserves				
Balance at the beginning of the year	(35 649)	(4 962)	–	–
Amount recognised in other comprehensive income during the year	1 713	(30 655)	–	–
Employee benefits reserve	679	547	–	–
Other reserves[2]	1 034	(31 202)	–	–
Amount reclassified from other comprehensive income to profit or loss for the year (Other reserves)	5 791	–	–	–
	(28 145)	(35 617)	–	–
Deferred tax recognised in other comprehensive income during the year	(480)	(32)	–	–
Balance at the end of the year	(28 625)	(35 649)	–	–
Foreign currency translation reserve				
Balance at the beginning of the year	50 291	29 818	–	–
Amount recognised in other comprehensive income during the year	(18 853)	20 473	–	–
Balance at the end of the year[3]	31 438	50 291	–	–
Share option reserve[4]				
Balance at the beginning of the year	–	–	–	–
Amount recognised directly in equity	515 809	–	23 831	–
Balance at the end of the year	515 809	–	23 831	–

[1] The cash flow hedge reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items are detailed in note 17 and comprise variable-rate bonds. Refer to note 42 for additional disclosure relating to the hedging instruments.

[2] The other reserves include the employee benefits reserve and other reserves.

[3] The foreign currency translation reserve relates to the gain or loss on translation of the group's investment in a foreign associate. This investment is denominated in euro and amounted to EUR12.9 million (2021: EUR11.9 million) and R223 million (2021: R217 million).

[4] The details of the Izindaba Ezinhle employee share scheme and co-investment plan SARs are set out in note 39.2 to the financial statements.

Notes to the financial statements continued

Year ended 28 February 2022

24. Net lending, investment, insurance and transaction fee income

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Interest income				
Loans and advances	**12 799 976**	12 902 124	**—**	—
Loan origination fees	**447 488**	498 546	**—**	—
Non-bank money market placements	**25**	380	**—**	325
Money market funds and term deposit investments	**498 520**	948 545	**—**	—
Bank balances	**3 083**	1 660	**479**	222
Resale agreements	**422 437**	731 231	**—**	—
Debentures	**73**	44 363	**—**	—
Interest-bearing instruments[1]	**3 282 713**	1 417 419	**—**	—
Total interest income	**17 454 315**	16 544 268	**479**	547
Loan fee income				
Monthly service fee	**968 856**	968 658	**—**	—
Net insurance income				
Premium income received	**3 077 895**	2 839 530	**—**	—
Reinsurance premium paid[2]	**(128 846)**	(416 458)	**—**	—
Net premium written	**2 949 049**	2 423 072	**—**	—
Claims paid – gross	**(945 928)**	(1 442 929)	**—**	—
Claims paid – reinsurance recoveries[2]	**162 042**	543 125	**—**	—
IBNR charge[3]	**(90 679)**	(220 587)	**—**	—
Interest received	**64 500**	37 922	**—**	—
Underwriting profit	**2 138 984**	1 340 603	**—**	—
Tax	**(599 406)**	(375 369)	**—**	—
Underwriting profit after tax	**1 539 578**	965 234	**—**	—
Total lending, investment and insurance income	**19 962 749**	18 478 160	**479**	547

(1) Interest-bearing instruments include treasury bills and government bonds with maturities greater than 3 months.

(2) Reinsurance premiums paid and recoveries received relate to the period for which the active insurance book was covered for death and retrenchment risk by a reinsurance agreement:
- *Retrenchment risk cover: 1 March 2020 – 30 April 2020.*
- *Death risk cover: 1 March 2020 – 30 April 2020, 1 August 2020 to 30 April 2021.*

(3) IBNR provision is raised for claims IBNR based on historical experience. The cell captive determines the IBNR by applying a percentage to premiums written during the period, in line with solvency assessment and management regulations.

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Interest expense				
Call and current accounts	**(1 943 338)**	(1 770 119)	**—**	—
Notice, term, foreign and fixed deposits	**(2 558 252)**	(2 728 237)	**—**	—
Listed senior bonds	**(76 823)**	(197 311)	**—**	—
Unlisted negotiable instruments	**(11 482)**	(19 214)	**—**	—
Interest paid (IFRS 16 *Leases*)	**(214 240)**	(238 191)	**—**	—
Other	**(33 763)**	(31 351)	**—**	—
Total interest expense	**(4 837 898)**	(4 984 423)	**—**	—
Loan fee expense[1]	**(18 247)**	(71 405)	**—**	—
Total lending, investment and insurance expense	**(4 856 145)**	(5 055 828)	**—**	—
Net lending, investment and insurance income	**15 106 604**	13 422 332	**479**	547
Transaction fee income[2]				
Branch, cash and self-service transactions	**5 675 418**	5 046 753	**—**	—
Digital transactions	**2 172 456**	1 632 742	**—**	—
Monthly fees, debit orders and other transactions	**4 383 809**	3 691 568	**—**	—
POS transactions	**2 301 350**	1 668 313		—
Total transaction fee income	**14 533 033**	12 039 376	**—**	—

(1) Credit life insurance cost on the first-party cell captive for loans issued prior to May 2016.

(2) Transaction fee income has been disaggregated in a manner that provides more granular information. The 2021 figures have been amended so that they are consistent with the more granular disaggregation.

25. Dividend income

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Ordinary dividends	**—**	—	**3 751 450**	—
Preference dividends	**—**	—	**3 207**	4 290
Dividend income	**—**	—	**3 754 657**	4 290

26. Credit impairments

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Bad debts written off[1]	**6 185 503**	6 378 680	**—**	—
Movement in provision for credit impairments[2]	**(1 859 526)**	2 378 089	**—**	—
Gross credit impairment charge	**4 325 977**	8 756 769	**—**	—
Bad debts recovered[3]	**(818 223)**	(932 048)	**—**	—
Net credit impairment charge	**3 507 754**	7 824 721	**—**	—

(1) This comprises those elements of the movement in gross loans and advances pertaining to write-offs and modifications as disclosed in note 8.

(2) This comprises all elements in the movement in provision for ECL as disclosed in note 8 other than for the ECL raised directly against interest received for loans in stage 3 where interest is recognised on the net carrying amount – R1 620 million (2021: R1 779 million). As such, it includes new ECL raised as well as ECL released on loans settled during the year and loans that were written off.

(3) Bad debts recovered include R404 million (2021: R199 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.

Notes to the financial statements continued

Year ended 28 February 2022

27. Operating expenses

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
The following items are included in operating profit before tax:				
Loss on disposal of property and equipment	2 348	10 654	—	—
Loss on derecognition of property and equipment due to the civil unrest	57 952	—	—	—
Loss on disposal of intangible assets	26 789	90	—	—
Depreciation on property and equipment	603 169	593 342	—	—
Depreciation charge on right-of-use assets – premises	397 422	407 329	—	—
Amortisation of intangible assets	223 496	241 268	—	—
Additional operating expenses due to the civil unrest	9 041	—	—	—
Advertising and marketing expenses	231 449	212 874	3 407	2 418
Bank charges and cash handling fees	444 245	330 894	3	3
Consumables	335 587	476 187	—	—
Communication expenses	215 683	238 281	—	—
Loss on cash due to the civil unrest	39 702	—	—	—
Security and cash-in-transit fees	549 201	514 168	—	—
IT expenses	955 228	654 859	—	—
Auditors' remuneration				
Audit fees – current year(1)	30 505	26 626	277	263
Audit fees – prior year(1)	2 109	1 027	—	—
Other services(2)	3 845	10 940	983	—
Total auditors' remuneration	36 459	38 593	1 260	263
Employee costs				
Salaries and bonus costs	6 391 823	4 425 850	—	—
Equity-settled share-based payment (per notes 39.1 and 39.3)	54 272	31 575	—	—
Cash-settled SARs (per note 39.1)	248 860	60 763	—	—
Equity-settled Izindaba Ezinhle share-based payment (per note 39.2)	515 809	—	—	—
Social security cost	172 166	141 408	—	—
Training cost	56 400	35 938	—	—
Training refund	(21 437)	(10 114)	—	—
Total employee costs	7 417 893	4 685 420	—	—

(1) *Includes disbursements and work required by regulation.*

(2) *Other services included R1 million in fees related to a reporting accounts report included in the circular for the Izindaba Ezinhle Employee Share Scheme.*

28. Income tax expense

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Current tax	2 988 160	1 589 173	22	—
Current year	2 944 625	1 589 117	—	—
Adjustment for prior periods	43 535	56	22	—
Deferred tax	(580 436)	(459 040)	—	—
Current year	(566 360)	(472 504)	—	—
Adjustment for prior periods	(58 029)	13 464	—	—
Tax rate change	43 953	—	—	—
Income tax expense	2 407 724	1 130 133	22	—
Effective tax rate (%)	22	20	—	—
The tax on the profit before tax differs from the theoretical amount that would arise using the basic normal company tax rate as follows:				
Operating profit before tax	10 934 746	5 588 217	3 753 410	(60 071)
Tax calculated at a tax rate of 28%	3 061 729	1 564 701	1 050 955	(16 820)
Adjustment for prior years	(14 494)	13 520	22	—
Income not subject to tax(1)	(682 090)	(422 290)	(1 050 955)	(1 201)
Expenses not deductible for tax purposes	22 811	7 048	—	—
Allowances not in income statement(2)	(24 079)	(32 839)	—	—
Non-taxable portion of capital loss	—	—	—	18 021
Movement in unutilised tax losses	(106)	(7)	—	—
Tax rate change in future value of deferred tax asset	43 953	—	—	—
Income tax expense	2 407 724	1 130 133	22	—

(1) *This relates to exempt income received from both the credit life insurance and funeral insurance cell captive arrangements for the group and the dividend from Capitec Bank Limited for the company, and share of profit of associates and joint ventures.*

(2) *The adjustment regarding allowances not in the income statement relate to learnership agreements as per section 12H of the Income Tax Act, Act 58 of 1962 (Income Tax Act).*

Notes to the financial statements continued

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29. Earnings per share attributable to ordinary shareholders

	GROUP	
R'000	**2022**	**2021**
Net profit after tax	**8 527 022**	4 458 084
Preference dividend	**(3 207)**	(4 290)
Discount on repurchase of preference shares	**(709)**	(2 071)
Net profit after tax attributable to ordinary shareholders	**8 523 106**	4 451 723
Weighted average number of ordinary shares in issue ('000)	**115 627**	115 627
Adjustment for:		
Exercise of share options[3]	**173**	71
Weighted average number of ordinary shares for diluted earnings per share ('000)	**115 800**	115 698
Basic earnings per share (cents)[1]	**7 371**	3 850
Diluted earnings per share (cents)[2]	**7 360**	3 848

[1] *Basic earnings per share is calculated by dividing the net profit after tax attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year.*

[2] *To calculate diluted earnings per share, the net profit after tax attributable to ordinary equity shareholders is divided by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive shares consist of share options as detailed in the notes. The number of shares that could have been acquired at fair value (the average annual share price of the company's shares) is determined based on the monetary value of the subscription rights attached to outstanding options. The result is compared to the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares as an issue of ordinary shares for no consideration. No adjustment is made to earnings.*

[3] *For the purpose of calculating the impact on diluted earnings and diluted HEPS, the shares issued in terms of the Izindaba Ezinhle Employee Share Scheme are accounted for as options for which the Treasury stock method provided for in IAS 33* Earnings per share *is applied.*

30. Headline earnings per share attributable to ordinary shareholders

	GROUP	
R'000	**2022**	**2021**
Net profit attributable to ordinary shareholders	**8 523 106**	4 451 723
Non-headline items:		
Derecognition of equipment due to the civil unrest	**41 725**	–
Taxable loss	**57 952**	–
Income tax	**(16 227)**	–
Insurance Sasria recoveries on property and equipment related to civil the unrest	**(142 770)**	–
Taxable profit	**(198 292)**	–
Income tax	**55 522**	–
(Profit)/Loss on disposal of property and equipment	**(1 096)**	11 519
Taxable loss/(profit)	**12 493**	(3 094)
Income tax	**(3 444)**	865
Non-taxable (profit)/non-tax deductible loss	**(10 145)**	13 748
Loss on disposal of intangible assets	**19 288**	65
Taxable loss	**26 789**	90
Income tax charge – intangible assets	**(7 501)**	(25)
Impairment of associate	**–**	122 202
Headline earnings	**8 440 253**	4 585 509
Basic headline earnings per share (cents)	**7 300**	3 966
Diluted headline earnings per share (cents)	**7 289**	3 963

31. Dividends declared

The company declared the following dividends for the current and previous financial years:

R'000	Dividends per share (cents)	Rand	Declared	Last day of trade	Date paid
2022					
Ordinary dividend					
Interim	**1 200**	**1 387 524**	**29 Sep 2021**	**19 Oct 2021**	**25 Oct 2021**
Final	**2 440**	**2 832 836**	**11 Apr 2022**	**3 May 2022**	**9 May 2022**
Special dividend	**1 500**	**1 741 498**	**11 Apr 2022**	**3 May 2022**	**9 May 2022**
Preference dividend					
Interim	**294.05**	**1 524**	**31 Aug 2021**	**14 Sep 2021**	**20 Sep 2021**
Final	**296.91**	**1 683**	**28 Feb 2022**	**15 Mar 2022**	**22 Mar 2022**
2021					
Ordinary dividend					
Final	1 600	1 850 032	12 Apr 2021	12 Apr 2021	10 May 2021
Preference dividend					
Interim	326.30	2 360	31 Aug 2020	31 Aug 2020	21 Sep 2020
Final	289.26	1 930	28 Feb 2021	26 Feb 2021	23 Mar 2021

32. Segment information

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the chief CODM in order to allocate resources to the segments and to assess their performance. The group EXCO, headed by the CEO, has been identified as the CODM, which is responsible for assessing the performance of and allocating resources to the segments.

The CODM identified 3 operating segments within the South African economic environment – Retail bank, Business bank and the Insurance business. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

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 licenses 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.

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.

Notes to the financial statements continued

Year ended 28 February 2022

32. Segment information continued

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

Within the segments are a number of products and services 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.

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.

Insurance

The cell captive arrangements enable Capitec Ins Proprietary Limited to provide long-term insurance products to Retail bank clients. The cell captives were transferred to Capitec Ins Proprietary Limited during the year (full details are set out in note 44 to the financial statements). Capitec Ins Proprietary Limited 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 administrative operating costs for the insurance operating segment were incurred by the Retail bank operating segment as Capitec Ins Proprietary Limited 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 that in the income statement. The fees from external clients for each major group of products and services are disclosed in note 24.

GROUP

	2022				2021			
R'000	Retail bank	Business bank	Insurance(4)	Total	Retail bank	Business bank	Insurance(4)	Total
Lending, investment and insurance income	17 526 271	1 188 697	1 539 578	19 962 749	16 533 250	1 098 965	965 234	18 478 160
Interest income on lending	12 320 412	927 052	—	13 247 464	12 530 862	869 808	—	13 400 670
Interest income on investments(2)	4 246 811	251 837	—	4 206 851	3 037 584	225 303	—	3 143 598
Loan fee income	959 048	9 808	—	968 856	964 804	3 854	—	968 658
Net insurance income (4)	—	—	1 539 578	1 539 578	—	—	965 234	965 234
Lending and investment expenses	(4 641 959)	(505 983)	—	(4 856 145)	(4 678 514)	(496 603)	—	(5 055 828)
Interest expense(2)	(4 623 796)	(505 899)	—	(4 837 898)	(4 607 109)	(496 603)	—	(4 984 423)
Loan fee expense	(18 163)	(84)	—	(18 247)	(71 405)	—	—	(71 405)
Net lending, investment and insurance income	12 884 312	682 714	1 539 578	15 106 604	11 854 736	602 362	965 234	13 422 332
Transaction fee income	13 188 078	1 344 955	—	14 533 033	10 891 686	1 147 690	—	12 039 376
Transaction fee expense	(3 402 608)	(615 959)	—	(4 018 567)	(2 798 080)	(533 805)	—	(3 331 885)
Net transaction income	9 785 470	728 996	—	10 514 466	8 093 606	613 885	—	8 707 491
Foreign currency income	—	497 605	—	497 605	—	409 165	—	409 165
Foreign currency expense	—	(353 212)	—	(353 212)	—	(298 413)	—	(298 413)
Net foreign currency income	—	144 393	—	144 393	—	110 752	—	110 752
Funeral plan income(4)	—	—	905 847	905 847	—	—	650 249	650 249
Other income	265 184	24 840	—	290 024	110 707	3 106	—	113 813
Credit impairments	(3 331 536)	(176 218)	—	(3 507 754)	(7 419 616)	(405 105)	—	(7 824 721)
Net income	19 603 430	1 404 725	2 445 425	23 453 580	12 639 433	925 000	1 615 483	15 179 916
Operating expenses(3)(5)	(10 257 958)	(1 072 978)	—	(11 330 936)	(7 506 372)	(714 123)	—	(8 220 495)
Depreciation(5)	(927 715)	(72 876)	—	(1 000 591)	(856 887)	(143 784)	—	(1 000 671)
Amortisation(5)	(180 414)	(29 015)	—	(209 429)	(178 248	(48 949)	—	(227 197)
Amortisation of intangible assets – core deposits and client relationships(1)	—	—	—	(14 067)	—	—	—	(14 071)
Share of net profit/(loss) of associates and joint ventures	36 189	—	—	36 189	(7 063)	—	—	(7 063)
Impairment of investment in associate	—	—	—	—	(122 202)	—	—	(122 202)
Operating profit before tax(1)	8 273 532	229 856	2 445 425	10 934 746	3 968 661	18 144	1 615 483	5 588 217
Income tax expense	(2 356 303)	(55 360)	—	(2 411 663)	(1 114 454)	(19 619)	—	(1 134 073)
Tax on amortisation of intangible assets(1)	—	—	—	3 939	—	—	—	3 940
Profit/(Loss) for the year(1)	5 917 229	174 496	2 445 425	8 527 022	2 854 207	(1 475)	1 615 483	4 458 084
Assets								
Net loans and advances	54 437 597	12 111 506	—	66 549 103	46 801 362	10 387 393	—	57 188 755
Other(2)	106 365 224	5 767 937	1 155 758	110 478 519	94 386 542	7 448 527	1 511 848	98 389 005
Acquisition of Mercantile	—	—	—	915 159	—	—	—	929 226
Goodwill(1)	—	—	—	849 487	—	—	—	849 487
Intangible asset – core deposit intangible(1)	—	—	—	53 857	—	—	—	65 393
Intangible asset – client relationships(1)	—	—	—	11 815	—	—	—	14 346
Total assets(1)(2)	160 802 821	17 879 443	1 155 758	177 942 781	141 187 904	17 835 920	1 511 848	156 506 986

(1) *Consolidation entries not included in either segment.*

(2) *The Retail bank and Business bank assets include an amount of R2.8 billion (2021: R5.0 billion) in investments that eliminates against liabilities at a group level. Interest on the investment amounted to R291 million (2021: R143 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 they are not material to the group.*

(4) *Comparative disclosures have been updated to disclose Insurance as a separate segment due to the transfer of the cell captives as detailed in note 44 and the CODM started 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.*

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management

The board of directors is responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity.

Note 33 should be read with the sections in the risk management report from pages 77 to 101 of the integrated annual report denoted as audited.

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The risk and capital management committee (RCMC) assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment. The committee is comprised of 3 independent non-executive directors, 3 non-executive directors and 1 executive director. The committee's terms of reference are detailed in a board-approved charter.

Specific risks are dealt with in a structured manner by the following subcommittees comprising executives and senior management:

- CC – credit and counterparty risk
- ALCO – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Risk committee – legal, compliance, technology, operational and reputational risk.

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter, reports are generated at regular intervals to enable monitoring of risk levels.

33.1 Credit risk

Refer to pages 82 to 86 of the integrated annual report for the qualitative disclosure of credit risk, marked as audited, as well as note 8.

The Retail bank grants loans for which no security is obtained and, accordingly, the Retail bank clients' loan balances as per the statement of financial position are exposed to credit risk. Exposure to systemic credit risk is regarded as being potentially higher due to the credit characteristics of the client base. Exposure to single-name concentration credit risk is low, however, due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book. The Business bank also offers a spread of business banking products common to the banking industry. The core market focus is established small- to medium-sized businesses across a wide variety of industries as well as private banking to the respective entrepreneurs. A group subsidiary, Mercantile Rental Finance, provides rental finance solutions with its core focus being the office automation, telecommunications and IT sectors.

Gross loans and advances exposures by economic sector is as follows:

R'000	2022	2021
Retail		
Government and municipalities	**30 864 942**	28 238 496
Retail and wholesale	**6 553 243**	5 833 294
Mining	**7 058 238**	6 321 413
Manufacturing	**11 732 296**	10 358 377
Services	**9 839 863**	8 479 860
Other	**5 165 423**	4 754 125
	71 214 005	63 985 565
Business		
Real estate	**4 586 800**	3 767 983
Manufacturing	**994 267**	1 168 689
Retail and wholesale	**1 353 615**	1 431 454
Other	**5 959 237**	4 672 665
	12 893 919	11 040 791

Credit risk is managed through every stage of the credit life cycle by following a combination of governance, decision support and business support. Governance includes regulators, industry associations, the group's financial governance and committees which support and influence credit strategy. Decision support is a specialist credit risk statistical analysis team that develops credit models and scorecards that are aligned with business strategies and credit risk appetite for unsecured retail lending. Credit risk management is provided by other areas of business to ensure optimisation of the granting, collection and recovery models and systems.

Measures taken by the group to limit credit risk for unsecured retail lending to acceptable levels include, *inter alia*, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the RCMC. Dependent on the risk profile of the client across all portfolios of the Business bank, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are taken to mitigate credit-related risks.

Retail bank

The key consideration regarding credit risk management is to maintain the Retail bank lending book within the group's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

The reason why clients approach credit providers for credit is that they have specific requirements. These requirements include the need for home improvements, education, second-hand vehicles and medical expenses.

We encourage clients to match the term of the loan to the requirement for funds. Thus, short-term loans and facilities (similar to overdrafts) are used for cash flow reasons, while medium-term loans are matched against appliances and education. The predominate use of long-term loans is for housing. By continuously refining our credit offer, we are able to provide clients unsecured credit solutions that best suit their personal needs and at competitive interest rates compared to the secured credit market.

In order to execute on this solution, we incorporate a comprehensive assessment of the client's behaviour, affordability and source of income. For the assessment, we use information from credit bureaus, bank statements and payslips. We apply 3 parallel disposable income calculations, i.e. the National Credit Act, Act 34 of 2005 (NCA) affordability calculation, a Capitec client disposable income calculation that maintains conservative buffers and the client's own calculation. We then apply the most stringent of the 3. Branch employees have no credit granting discretion and all exceptions are managed and monitored by a centralised specialist team.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.1 Credit risk continued

Retail bank continued

During the loan application process, we present the maximum loan amount, maximum term and maximum instalment to the client. Within these constraints, the client may select any combination that best suits them. We encourage clients to take up credit for shorter periods of time and for smaller amounts. This is done through a pricing model that discounts the interest rate in instances where clients select a term that is shorter than the maximum for which they qualify. This is due to the manner in which the pricing for risk model reacts to the lower default rates for such clients.

When existing clients apply for further credit we conduct a full credit assessment. If a client qualifies for further credit, it can be extended as a further agreement in addition to the current credit; or the client can have the existing credit consolidated into a new credit agreement. This is only available for clients if instalments are up-to-date on all Capitec loans and to clients who have a satisfactory credit risk.

Our scoring models react to instances where a client repeatedly takes up credit, and when their debt-to-income ratio becomes too high. In such instances, we limit the term and amount of credit offered to clients or we decline the application for credit.

Acquisition and retention strategies are built on the principles of the client's credit behaviour (willingness to pay), affordability and source of income. Rehabilitation strategies are need-driven to assist clients based on their unique circumstances.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. The circumstances may include:

- employers who reduce overtime and bonuses or place employees on short pay due to difficult economic conditions
- strikes
- clients may be forced to change employment at reduced salaries due to poor performance or health problems
- financial problems faced by employers.

These instances may result in a client missing an instalment on a loan and being in arrears.

If the client is in arrears due to challenges regarding the client's inability to repay the debt, we either negotiate with the client to immediately bring the arrears instalments up-to-date, or we attempt to help and manage the situation through agreeing a course of action with the client by amending the loan agreement (loan reschedule).

The first solution is preferable, as it:

- reduces arrears if the client pays on the same date
- improves our cash flow
- helps restore the client to a creditworthy position
- limits the overall cost of credit for clients.

Practically, there is a risk that placing too much pressure on clients (such as expecting clients in financial distress to repay 2 instalments in a single month when they cannot afford to do so) can be counterproductive. In such a case, clients could refuse to cooperate, stop communicating with us and stop paying instalments.

We have extensive history that measures the yields we can receive by handing clients over to external debt collectors. We monitor the cash flow yields that we receive from this process against internal collection processes, including rescheduling. We optimise the strategy for different client groups and use handover samples for each strategy to monitor the relative performance and validate the strategy for each client group.

Factors that we consider in delivering the optimal strategy for a client include:

- the risk profile and payment history of the client
- the arrears status of the client
- whether the client was rescheduled previously
- the credit exposure amount
- free cash flow estimates derived from clients' bank accounts or credit bureau records (salary less debit orders)
- any information we have about the client's employer.

Depending on a combination of factors, the optimal strategy is to encourage clients with some free cash flow or limited credit exposure to bring arrear instalments up-to-date; or assist clients who have cash flow difficulty but have good behaviour history, to reduce their instalments and extend the term of the credit agreement (i.e. reschedule). When there is a clear temporary interruption of income such as a strike or a client is on maternity leave, we may allow a reduced instalment for a short period (typically 3 months) with subsequent increased instalments, in order to assist the client through this period (i.e. variable reschedule). We hand over clients and write the loan off when the problem appears to relate to the client's unwillingness or inability to pay.

We use system-based rules to limit instances where we allow rescheduling. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term for which the loan can be extended. We do not reschedule all loans that meet our criteria, as this depends on the individual circumstances of each client applying to reschedule. Successfully treating clients who were in arrears decreases the overall quality of the loan book, as clients who would otherwise have been written off remain on-balance sheet. We do, however, treat, monitor and separately disclose the performance of these clients.

We monitor the performance and cure rate of reschedules using a segmented approach to ensure that it remains within the bank's risk appetite. Refer to note 8 for reschedule information.

This process allows us to optimise collections and reduce clients' debt levels. Our aim is always to partner with our clients through both good and tough times and act in their best interest.

Business bank

The group adopts a measured approach to credit granting for its Business bank clients, within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process automated on the bank's workflow system. Levels of credit approval mandates are determined by the experience of the mandated individual, with dual or multiple sign-off on all material values. Mandates have also been accorded to frontline management within predetermined rules and parameters as approved by the RCMC, which approvals are evaluated and monitored by credit on an ongoing basis.

An ongoing weekly review is undertaken by the CC of all new and renewal proposals for lending in excess of R2 million (in aggregate). This meeting covers a wide variety of topics, including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the bank's advances portfolio composition and performance, and any other relevant credit-related matters requiring specific mention or discussion. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at the weekly CC meeting with appropriate actions being taken.

Identified accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly 'watch list' meetings and reporting. To protect the group, prompt action is taken by senior internal stakeholders, including the Executive: Business bank, on large defaults. This action has seen a good measure of historical success given our flat structure that drives agility.

Counterparties to derivatives expose the group to credit-related losses in the event of non-performance. The Business bank continually monitors its positions and the credit ratings, if applicable, of its counterparties and limits the value of agreements it enters into with any 1 party to within preapproved transactional limits.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.1 Credit risk continued

Credit risk mitigation

Interest rate limits and fees for credit agreements were changed on 6 May 2016 by the National Credit Regulator. Prior to this date, we charged our Retail bank clients an all-inclusive rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-May 2016 loan book through a first-party cell captive structure. Following the changes from May 2016, all loans granted that are greater than 6 months require our Retail bank clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment, temporary or permanent disability and loss of income, and in the case of death, there is no claim against their deceased estate for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third-party cell captive.

Collateral and other credit enhancements

The group employs a range of policies and practices to mitigate credit risk for its Business bank clients. The most common of these is accepting collateral for funds advanced. The group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Business bank prepares a valuation of the collateral obtained as part of the loan origination process and this assessment is reviewed periodically. The principal collateral types for loans and advances are:

- mortgages over residential and commercial properties
- pledge and cession over business assets, such as stock and accounts receivable
- pledge and cession over financial instruments, such as debt securities.

Longer-term finance and lending to small- to medium-sized businesses are generally secured, while credit card facilities are generally unsecured. The Business bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Business bank since the acquisition date.

A portion of the Business bank's financial assets originated by the mortgage business has sufficiently low loan-to-value ratios. The loss allowance would be reduced as a result of holding collateral.

The Business bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held to mitigate potential losses are detailed in note 8.

Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

PD is an estimate of the likelihood of default over a given time horizon. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact the PD.

The calculation is based on a statistical model that predicts the future repayment performance of clients based on their arrears status, model segment and tenure. Future cash flows and arrears status probabilities are generated from which an ECL provision is calculated. The prediction of future repayment is based on observed roll rates over the last 12 months. Roll rates refer to the rates at which clients transition or roll from a repayment status in a given month to a repayment status in the following month.

LGD is an estimate of the loss arising on default. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a DCF basis. LGD models for secured business banking products are based on the difference between the contractual cash flows due and those that the group expects to receive, taking into account cash flows from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The EAD is calculated by creating an amortisation structure for each account. This structure includes the expected monthly repayment as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The group uses EAD models that reflect the characteristics of the portfolios.

Impairment – measurement of the ECL

The developing of the group's processes for measuring ECL, including the monitoring of SICR, the incorporation of economic forward-looking information and the methods used to calculate ECL and ensuring that policies and procedures are in place to appropriately maintain and validate models used to measure ECL, are overseen by the group's CCs. The internal audit function performs regular audits to ensure that established controls and procedures are both adequately designed and implemented.

Impairment implementation

Staged approach to the determination of ECL

IFRS 9's ECL model requires the classification and measurement of ECL using the general model for loans and advances measured at amortised cost. In essence, the general model is a 3-stage model. Loans and advances within stage 1 are measured based on a 12-month ECL and a lifetime ECL is determined for loans and advances within stage 2 and stage 3. The 3 stages are disclosed in the accounting policies for the Retail bank and the Business bank.

Significant increase in credit risk

The group considers reasonable and supportable information based on the group's historical experience, credit risk assessment and forward-looking information (including macroeconomic factors) when determining whether the credit risk (i.e. the risk of default) of loans and advances has increased significantly since initial recognition. The assessment of SICR is key in determining when to move from measuring an impairment provision based on a 12-month ECL to one that is based on a lifetime ECL (the move from stage 1 to stage 2). The group's ECL framework aligns with the group's credit granting strategy.

As disclosed in note 8, the group monitors financial debt instruments subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. If there has been a SICR, the group will measure the loss allowance based on lifetime rather than 12-month ECL.

In terms of IFRS 9, all loans and advances exposures are assessed at each reporting date (monthly) to determine whether there has been a SICR, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the impairment provision at an amount equal to the 12-month ECL. The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or where specific events have occurred that raise a SICR flag. The 12-month ECL is extended to a lifetime ECL for these clients.

The group has set certain behaviour and granting score thresholds for its unsecured Retail bank clients which are used to identify a SICR.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing client's propensity to be in default on a loan after 12 months. The score was built on a client level, utilising Capitec loans and savings account information as well as the credit exposure and repayment behaviour at external credit providers. The behaviour score is updated monthly on all existing loan clients to ensure that Capitec has a consistently updated view of the client.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.1 Credit risk continued

Impairment implementation continued

Significant increase in credit risk continued

The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposure that share similar credit characteristics in order to account for forward-looking information that may not be identified at an individual loan level.

The updated granting view is simply a reinterpretation of the information available at granting date and is not an updated view on the client. Updated client information is incorporated in the behaviour score.

The SICR thresholds are reviewed on an annual basis to ensure that they are able to identify SICR throughout the lifetime of the loan.

The group considers a financial instrument for its Business bank clients to have experienced a SICR if the borrower is on the watch list and/or meets at least 1 of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in the operating results of the borrower
- Significant change in collateral value which is expected to increase the risk of default
- Early signs of cash flow or liquidity problems such as a delay in servicing of trade creditors and loans.

A backstop is applied and the financial instrument is considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Incorporation of forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future credit losses should not only depend on the health of the economy presently, but should take into account changes to the economic environment in the future.

To capture the effects of changes to the economic environment in the future, the forward-looking model for Retail bank considers economic variables specific to South Africa that directly impact the group's clients. The group utilises the BER macroeconomic outlook for the country over a planning horizon of 5 years. The outlook is provided to the ALCO for review and approval. Refer to note 8.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate sufficient forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

Write-off policy

Under IFRS 9, loans can only be written off when there is no reasonable expectation of recovery. The group therefore applies write-off for retail loans when the present value of projected future recoveries is less than 5% of the gross balance before write-off. Refer to note 2.5.1.2.3.

All recoveries after write-off are recognised as bad debts recovered.

Loans and debt securities for Business bank clients are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or a portion of it). This is the case when the group determines that the borrower does not have assets or sources of income that could generate enough cash flows to repay the amounts subject to the write-off. The group may apply enforcement activities to financial assets written off.

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, National Treasury, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 4 to 7). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the CC, and monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's Investors Service Inc. (Moody's).

Credit quality of investments

At the statement of financial position date, the international long-term credit ratings, using Moody's ratings, were as follows:

R'000	Note	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	Not rated	Adjust-ment[4]	Total carrying amount
2022								
Cash on hand	4	–	–	–	2 870 552	–	–	2 870 552
Bank balances – local and foreign[1]	4	1 261 573	625 206	1 109	17 994 686	–	(544)	19 882 030
Resale agreements[1]	4	–	–	–	8 442 802		(456)	8 442 346
Central bank balances[3]	4	–	–	–	3 043 900	–	–	3 043 900
Government bonds	6	–	–	–	12 047 420		(37 950)	12 009 470
Treasury bills (>3 months)	6	–	–	–	51 001 027	–	(70 773)	50 930 254
Term deposit investments	7	–	722 190	–	–	–	–	722 190
SARB settlement and other receivables	9	–	–	–	1 559 299	1 047 907	–	2 607 206
Net insurance receivable	10	–	–	–	677 935	–	–	677 935
Derivative assets	42	–	–	–	–	14 586	–	14 586
		1 261 573	1 347 396	1 109	97 637 621	1 062 493	(109 723)	101 200 469
2021								
Cash on hand	4	–	–	–	2 956 685	–	–	2 956 685
Bank balances – local and foreign[1]	4	1 035 894	292 461	426 558	15 242 467	–	(1 371)	16 996 009
Resale agreements[1]	4	3 528 326	–	–	23 728 172		(1 067)	27 255 431
Central bank balances[3]	4	–	–	–	2 098 573	–	–	2 098 573
Money market unit trusts[2]	4	–	–	–	–	11 511	–	11 511
Collective investment schemes	5	–	–	–	–	2 969 740	–	2 969 740
Government bonds	6	–	–	–	4 951 239		(15 596)	4 935 643
Treasury bills (>3 months)	6	–	–	–	30 110 029	–	(52 144)	30 057 885
Term deposit investments	7	–	312 859	–	–	–	–	312 859
SARB settlement and other receivables	9	–	–		396 892	1 086 819	–	1 483 711
Net insurance receivable	10	–	–		987 116	–	–	987 116
Derivative assets	42	–	–		10 937	17 074	–	28 011
		4 564 220	605 320	426 558	80 482 110	4 085 144	(70 178)	90 093 174

[1] *The bank balances and resale agreements were with 27 institutions (2021: 27), with the maximum exposure to 1 institution being R17.3 billion (2021: R17.2 billion). Balances are rand and foreign currency-denominated.*

[2] *Money market funds consist of money market unit trusts. At year-end, the placements were with nil institutions (2021: 5).*

[3] *All central bank balances are with the SARB and include the mandatory reserve deposit requirement.*

[4] *The adjustment relates to ECL. The credit ratings determine the ECL.*

33.2 Interest rate risk

The exposure to interest rate risk is managed within board-approved tolerances. These tolerances are monitored by the RCMC and ALCO and escalated according to tolerance bands. The current group interest rate profile is monitored by the ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including, *inter alia*, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio.

ALCO only allows derivatives for the hedging of interest rate risk in the funding book. Interest rate swaps are used to convert selected floating-rate funding to fixed-rate funding with the objective of matching certain fixed-rate assets with fixed-rate liabilities. The nominal amounts and the payment dates of the hedging instrument match the hedged item exactly from the date of the hedge and, as a consequence, there is 100% hedge effectiveness.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.2 Interest rate risk continued

To measure interest rate risk, the group aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest repricing dates. The group uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing IBOR with alternative risk-free rates to improve market efficiency and mitigate systemic risk across financial markets. The SARB has indicated their intention to move away from JIBAR and to create an alternative reference rate for South Africa. This reform is at various stages globally. A suitable alternative for South Africa is only expected to be announced in a few years' time. Accordingly, there is uncertainty surrounding the timing and manner in which the transition would occur and how this would affect various financial instruments held by the group.

Cash flow interest rate risk

The group actively manages interest rate risk with the objective to match certain fixed-rate assets with fixed-rate liabilities and floating-rate assets with floating-rate liabilities. The group reduced its exposure to fixed-rate financial assets by, in part, cash flow hedging elements of its variable-rate funding book to a fixed rate. An amount of R0.5 billion (2021: R1.0 billion) is hedged. Interest rate swaps have the economic effect of converting floating-rate debt to fixed-rate debt. The net unmatched position, resulting from the group's exposure to variable-rate funding from its retail deposits, exposes the group to cash flow interest rate risk.

Sensitivity analysis

The ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the bank which includes, *inter alia*, the results of various models and the impact of interest rate strategy on the gross margin. The sensitivity analysis below is a run-off analysis and reflects the interest rate repricing impact in the static balances of the statement of financial position of a 200 basis points. Variable-rate-sensitive items would be impacted immediately by the interest rate shock. The net variable-rate exposure amounts to a R45.2 billion liability position (2021: R45.7 billion liability position). Fixed-rate items would not be impacted and funds received from maturing items are assumed to be reinvested at variable market interest rates. Net fixed-rate exposures maturing within 12 months amount to an asset position of R54.7 billion (2021: R53.9 billion asset position) and net fixed-rate exposures maturing after 12 months amount to an asset position of R22.6 billion (2021: R19.9 billion asset position). Currently, our profit before tax is expected to decrease by R46.3 million in the case of a 200 basis point upward shock and increase by R46.3 million in the case of a 200 basis point downward shock.

	Impact on income statement	
200 basis points	**2022**	**2021**
R'000	**Pre-tax**	**Pre-tax**
Increase	**(46 305)**	(18 535)
Decrease	**46 305**	(23 694)

Collective investment scheme investments

The investments at FVTPL were stressed by calculating the impact of a change in market interest rates on the fair value.

	Impact on income statement	
200 basis points	**2022**	**2021**
R'000	**Pre-tax**	**Pre-tax**
Increase	–	(16 793)
Decrease	–	15 056

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The group operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

33.3 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates.

The board determines market risk limits, which are reviewed at least annually or depending on prevailing market conditions.

The group does not currently take proprietary trading positions and, therefore, has minimal exposure to market risk. Should the group consider entering into a proprietary trading position, the trading committee and RCMC will have to evaluate and approve such action. The trading committee will ensure that the group is sensibly positioned, taking into account agreed limits, policies, prevailing market conditions, available liquidity and the risk reward trade-off, mainly in respect of changes in foreign currency exchange rates and interest rates.

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the asset and liability management (ALM) forum records this and it is immediately corrected and reported to the ALCO. Controls are in place to monitor foreign exchange exposures on a realtime basis through the bank's treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RCMC and the board on a regular basis.

33.4 Currency risk

Business bank

The Business bank, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities.

Foreign currency exposures as a result of the investment in foreign associates is disclosed in the consolidated statement of changes in equity (refer to note 23) and are not included in the table below.

The group has conservative net open foreign currency position limits that are well below the limits allowed by the SARB. For the year under review, the highest net open position recorded, for any single day, was R111.3 million (2021: R43.0 million).

Sensitivity analysis on pre-tax profit with all other variables held constant:

R'000	US dollar	Euro	Pound sterling	Other	Total
2022					
Rand weakens by 10%	**176**	**(292)**	**(491)**	**821**	**214**
Rand strengthens by 10%	**(176)**	**292**	**491**	**(821)**	**(214)**
2021					
Rand weakens by 10%[1]	1 759	1 371	(196)	431	3 365
Rand strengthens by 10%[1]	(1 759)	(1 371)	196	(431)	(3 365)

[1] *The comparative figures have been updated to pre-tax profit value.*

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.4 Currency risk continued

Business bank continued

The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

R'000	US dollar	Euro	Pound sterling	Other	Total
2022					
Total foreign exchange assets[2]	1 006 076	387 167	199 667	79 075	1 671 985
Total foreign exchange liabilities	(849 607)	(193 606)	(199 403)	(62 281)	(1 304 897)
Commitments to purchase foreign currency	881 906	340 871	94 353	34 663	1 351 793
Commitments to sell foreign currency	(1 036 619)	(537 347)	(99 525)	(43 248)	(1 716 739)
Year-end effective net open foreign currency positions	1 756	(2 915)	(4 908)	8 209	2 142
2021					
Total foreign exchange assets	1 134 886	304 999	169 458	76 915	1 686 258
Total foreign exchange liabilities	(865 855)	(174 767)	(146 340)	(56 439)	(1 243 401)
Commitments to purchase foreign currency	735 838	285 290	95 141	24 518	1 140 787
Commitments to sell foreign currency	(987 283)	(401 807)	(120 218)	(40 685)	(1 549 993)
Year-end effective net open foreign currency positions[1]	17 586	13 715	(1 959)	4 309	33 651

[1] The prior year has been updated to reflect in R'000.
[2] Net of a foreign currency denominated asset of R221 million in foreign currency denominated bank balances and a clearing entry in other payables.

33.5 Liquidity risk

The group manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by the ALCO in terms of an approved ALM policy. The maturity profile reflects the deliberate strategy of funding longer-term assets with a significant portion of long-term funding with limited use of core call deposit funding. Our conservative approach at times results in the holding of cash in excess of immediate operational requirements. Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due without incurring unacceptable losses.

The following table analyses the group's assets and liabilities into maturity groupings based on the remaining period, at the statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result
- The cash flows of floating-rate financial instruments are calculated using published forward market rates at the statement of financial position date
- The cash flows of the derivative financial instruments are included on a gross basis
- Contractual cash flows with respect to items which have not yet been recorded on the statement of financial position are excluded. Refer to note 37
- Adjustments to loans and advances to clients relate to initiation fee income
- Non-cash liabilities, representing leave pay is disclosed as adjustments to trade and other payables
- Non-contractual loans comprise discounted stage 3 loans and advances that are more than 3 months in arrears, have legal statuses (including debt review), but excluding loans where debt review was applied for less than 6 months ago. It is shown as non-contractual because it is subject to legal collection processes.

Maturities of assets and liabilities[1][7]

		GROUP						
R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[4]	Total
2022								
Undiscounted assets								
Cash and cash equivalents – sovereigns[3]	4	3 043 900	—	—	—	—	—	3 043 900
Cash and cash equivalents – banks[3]	4	29 805 962	1 406 547	—	—	—	(1 000)	31 211 509
Financial assets at FVTPL	5	—	—	—	—	—	—	—
Money market unit trusts – corporate other	4	—	—	—	—	—	—	—
Financial investments at amortised cost	6	6 615 500	10 836 930	35 687 420	21 737 744	—	(108 723)	74 768 871
Term deposit investments	7	—	311 456	420 200	—	—	(44)	731 612
Financial assets – equity instruments at FVOCI	11	—	—	—	72 680	—	—	72 680
Loans and advances – Retail	8	4 467 109	6 067 675	23 712 769	62 701 621	9 170 366	(292 808)	105 826 732
Loans and advances – Business	8	2 011 694	247 313	1 028 746	3 283 772	428 131	—	6 999 656
Loans and advances – Mortgages	8	128 991	252 889	750 136	8 374 807	473 379	—	9 980 202
Other receivables	9	2 552 869	36 098	39 211	19 993	—	—	2 648 171
Funeral plan income receivable		—	—	477 823	—	—	—	477 823
Net insurance receivable	10	—	—	677 935	—	—	—	677 935
Derivative assets	42	6 408	2 032	6 146	—	—	—	14 586
Current income tax asset		—	—	—	—	—	—	—
Undiscounted assets		48 632 433	19 160 940	62 800 386	96 190 617	10 071 876	(402 575)	236 453 677
Adjustments for undiscounted assets		(1 889 411)	(2 277 406)	(10 553 105)	(35 833 894)	—	—	(50 553 816)
Discounted assets								
Loan impairment provision		(1 219 691)	(588 132)	(2 300 416)	(6 317 249)	(7 133 333)	—	(17 558 821)
Total discounted assets		45 523 331	16 295 402	49 946 865	54 039 474	2 938 543	(402 575)	168 341 040
Undiscounted liabilities								
Deposits	17	93 122 833	5 460 246	17 034 926	21 210 709	—	—	136 828 714
Wholesale funding	17	66 465	39 834	238 358	2 007 385	—	—	2 352 042
Lease liability	19	19 532	92 708	414 554	2 816 469	—	—	3 343 263
Current income tax liabilities		—	301 951	—	—	—	—	301 951
Trade and other payables	18	2 795 540	1 418 279	142 022	321 575	68 443	—	4 745 859
Derivative liabilities	42	6 489	8 762	12 820	6 617	—	—	34 688
Employee benefits liabilities	21	—	—	—	234 029	—	—	234 029
Undiscounted liabilities		96 010 859	7 321 780	17 842 680	26 596 784	68 443	—	147 840 546
Adjustments for undiscounted liabilities		(36 126)	(196 630)	(1 078 052)	(4 352 672)	—	—	(5 663 480)
Total discounted liabilities		95 974 733	7 125 150	16 764 628	22 244 112	68 443	—	142 177 066
Net liquidity excess/(shortfall)[5][6]		(48 598 117)	11 251 028	42 657 290	63 276 584	2 870 100	(402 575)	71 054 310
Cumulative liquidity excess/(shortfall)[2][6]		(48 598 117)	(37 347 089)	5 310 201	68 586 785	71 456 885	71 054 310	71 054 310

Refer footnotes on page 242.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[(1)(7)] continued

R'000	Note	GROUP Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[(4)]	Total
2021								
Undiscounted assets								
Cash and cash equivalents – sovereigns[(3)]	4	2 098 573	—	—	—	—	—	2 098 573
Cash and cash equivalents – banks[(3)]	4	44 162 848	3 092 811	—	—	—	(2 439)	47 253 220
Financial assets at FVTPL	5	2 969 740	—	—	—	—	—	2 969 740
Money market unit trusts – corporate other	4	11 511	—	—	—	—	—	11 511
Financial investments at amortised cost	6	1 961 960	4 700 310	24 657 186	9 049 608	—	(67 740)	40 301 324
Term deposit investments	7	—	315 707	—	—	—	—	315 707
Financial assets – equity instruments at FVOCI	11	—	—	—	69 340	—	—	69 340
Loans and advances – Retail	8	3 286 270	5 442 927	21 599 762	58 477 442	8 528 505	(322 618)	97 012 288
Loans and advances – Business	8	1 699 882	229 933	952 660	2 880 169	359 525	—	6 122 169
Loans and advances – Mortgages	8	90 071	179 173	669 122	6 733 504	399 718	—	8 071 588
Other receivables	9	859 566	—	73 415	38 197	20 000	—	991 178
Funeral plan income receivable		—	—	524 732	—	—	—	524 732
Net insurance receivable	10	—	—	987 116	—	—	—	987 116
Derivative assets	42	8 946	10 169	8 896	—	—	—	28 011
Current income tax asset		–	—	—	—	—	—	—
Undiscounted assets		57 149 367	13 971 030	49 472 889	77 248 260	9 307 748	(392 797)	206 756 497
Adjustments for undiscounted assets		(1 094 711)	(2 086 399)	(8 924 037)	(29 430 222)	—	—	(41 535 369)
Discounted assets								
Loan impairment provision		(1 332 164)	(541 674)	(2 229 973)	(6 236 809)	(7 496 981)	—	(17 837 601)
Total discounted assets		54 722 492	11 342 957	38 318 879	41 581 229	1 810 767	(392 797)	147 383 527
Undiscounted liabilities								
Deposits	17	82 059 400	5 140 685	16 883 049	18 148 115	—	—	122 231 249
Wholesale funding	17	46 527	1 059 877	148 695	1 327 904	—	—	2 583 003
Lease liability	19	42 340	89 627	395 852	3 025 124	—	—	3 552 943
Current income tax liabilities		—	159 520	—	—	—	—	159 520
Trade and other payables	18	1 691 834	269 779	463 585	392 443	—	—	2 817 641
Derivative liabilities	42	10 566	14 489	20 639	22 108	—	—	67 802
Employee benefit liabilities	21	—	—	38 479	100 947	—	—	139 426
Undiscounted liabilities		83 850 667	6 733 977	17 950 299	23 016 641	—	—	131 551 584
Adjustments for undiscounted liabilities		(31 596)	(188 277)	(976 599)	(3 763 531)	—	—	(4 960 003)
Total discounted liabilities		83 819 071	6 545 700	16 973 700	19 253 110	—	—	126 591 581
Net liquidity excess/(shortfall)[(5)(6)]		(28 033 464)	6 695 379	29 292 617	47 994 810	1 810 767	(392 797)	57 367 312
Cumulative liquidity excess/(shortfall)[(2)(6)]		(28 033 464)	(21 338 085)	7 954 532	55 949 342	57 760 109	57 367 312	57 367 312

Refer footnotes on page 242.

R'000	Note	GROUP 1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2022								
Undiscounted assets								
Financial investments at amortised cost	6	985 157	982 794	527 804	979 938	18 262 051	—	21 737 744
Financial assets – equity instruments at FVOCI	11	—	—	—	72 680	—	—	72 680
Loans and advances – Retail	8	24 164 599	17 035 958	11 344 062	7 425 371	2 731 631	—	62 701 621
Loans and advances – Business	8	1 151 668	893 987	619 674	300 999	172 238	145 206	3 283 772
Loans and advances – Mortgages	8	907 001	858 128	822 016	773 403	2 884 295	2 129 964	8 374 807
Other receivables	9	17 645	2 348	—	—	—	—	19 993
Derivative assets	42	—	—	—	—	—	—	—
Undiscounted assets		27 226 070	19 773 215	13 313 556	9 552 391	24 050 215	2 275 170	96 190 617
Adjustments for undiscounted assets		(9 289 590)	(6 782 806)	(4 788 583)	(4 853 199)	(9 589 842)	(529 874)	(35 833 894)
Discounted assets								
Loan impairment provision		(2 473 207)	(1 810 532)	(1 194 247)	(657 000)	(130 071)	(52 192)	(6 317 249)
Total discounted assets		15 463 273	11 179 877	7 330 726	4 042 192	14 330 302	1 693 104	54 039 474
Undiscounted liabilities								
Deposits	17	8 766 977	4 202 314	4 199 411	4 042 007	—	—	21 210 709
Wholesale funding	17	253 164	1 471 503	116 987	116 987	48 744	—	2 007 385
Lease liability	19	532 358	474 894	438 814	407 786	947 052	15 565	2 816 469
Trade and other payables	18	98 518	65 739	39 540	24 314	93 464	—	321 575
Derivative liabilities	42	5 565	1 052	—	—	—	—	6 617
Employee benefit liabilities	21	123 273	105 787	4 969	—	—	—	234 029
Undiscounted liabilities		9 779 855	6 321 289	4 799 721	4 591 094	1 089 260	15 565	26 596 784
Adjustments for undiscounted liabilities		(1 250 609)	(951 080)	(779 998)	(841 574)	(519 664)	(9 747)	(4 352 672)
Total discounted liabilities		8 529 246	5 370 209	4 019 723	3 749 520	569 596	5 818	22 244 112
Net liquidity excess/(shortfall)[(5)(6)]		14 973 008	11 641 394	7 319 588	4 304 297	22 830 884	2 207 413	63 276 584
Cumulative liquidity excess/(shortfall)[(2)(6)]		20 283 209	31 924 603	39 244 191	43 548 488	66 379 372	68 586 785	68 586 785

Refer footnotes on page 242.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[1][7] continued

R'000	Note	GROUP 1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2021								
Undiscounted assets								
Financial investments at amortised cost	6	395 680	396 601	395 844	230 308	7 631 175	—	9 049 608
Financial assets – equity instruments at FVOCI	11	—	—	—	69 340	—	—	69 340
Loans and advances – Retail	8	22 316 365	15 641 245	10 339 293	6 739 873	3 440 666	—	58 477 442
Loans and advances – Business	8	1 010 421	770 506	522 539	282 879	209 492	84 332	2 880 169
Loans and advances – Mortgages	8	805 182	777 054	713 741	638 066	2 180 374	1 619 087	6 733 504
Other receivables	9	29 791	6 059	2 347	—	—	—	38 197
Derivative assets	42	—	—	—	—	—	—	—
Undiscounted assets		24 557 439	17 591 465	11 973 764	7 960 466	13 461 707	1 703 419	77 248 260
Adjustments for undiscounted assets		(8 111 463)	(5 850 899)	(4 540 880)	(4 002 174)	(6 526 380)	(398 426)	(29 430 222)
Discounted assets								
Loan impairment provision		(2 489 872)	(1 793 767)	(1 116 397)	(557 224)	(253 774)	(25 775)	(6 236 809)
Total discounted assets		13 956 104	9 946 799	6 316 487	3 401 068	6 681 553	1 279 218	41 581 229
Undiscounted liabilities								
Deposits	17	8 897 166	3 194 581	3 401 340	2 654 336	692	—	18 148 115
Wholesale funding	17	259 720	216 632	697 232	133 793	20 527	—	1 327 904
Lease liability	19	494 059	495 591	452 051	433 127	1 113 869	36 427	3 025 124
Trade and other payables	18	163 926	64 562	36 147	17 094	110 714	—	392 443
Derivative liabilities	42	13 537	7 730	841	—	—	—	22 108
Employee benefit liabilities	21	3 239	61 737	25 323	7 407	3 241	—	100 947
Undiscounted liabilities		9 831 647	4 040 833	4 612 934	3 245 757	1 249 043	36 427	23 016 641
Adjustments for undiscounted liabilities		(1 074 607)	(733 525)	(733 902)	(585 343)	(611 077)	(25 077)	(3 763 531)
Total discounted liabilities		8 757 040	3 307 308	3 879 032	2 660 414	637 966	11 350	19 253 110
Net liquidity excess/(shortfall)[5][6]		12 235 920	11 756 865	6 244 433	4 157 485	11 958 890	1 641 217	47 994 810
Cumulative liquidity excess/(shortfall)[2][6]		20 190 452	31 947 317	38 191 750	42 349 235	54 308 125	55 949 342	55 949 342

(1) *For the company, the contractual maturities of the financial assets and liabilities are all on demand to 1 month.*
(2) *Much of the liquidity shortfall in the demand to 3-month categories results from the investment of excess cash in treasury bills and government bonds with maturities in excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise.*
(3) *The definitions of sovereign, banks, corporate and retail are aligned with the Banks Act regulations.*
(4) *The adjustment includes adjustments to loan origination fees, deferred income and ECL.*
(5) *Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities.*
(6) *Off-balance sheet guarantees and letters of credit for the Business bank to the value of R689 million (2021: R579 million) and R12 million (2021: R3 million), respectively, and irrevocable loan commitments to the value of R11 483 million (2021: R5 139 million) that have a maturity of demand to 1 month have not been included above.*
(7) *Assets and liabilities other than financial assets and financial liabilities are included in the analysis to provide a holistic view of liquidity management.*

33.6 Gains and losses per category of financial assets and financial liabilities

R'000	Note	GROUP At FVTPL Held for trading	At FVTPL Financial assets	At FVOCI Designated as hedges	At amortised cost Financial assets	At amortised cost Financial liabilities	Total
2022							
Interest income	24	—	—	—	17 454 315	—	17 454 315
Interest income and gains from income funds		—	14 903	—	—	—	14 903
Interest expense	24	—	—	—	—	(4 837 898)	(4 837 898)
Loan fee income	24	—	—	—	968 856	—	968 856
Loan fee expense	24	—	—	—	(18 247)	—	(18 247)
Transaction fee income	24	—	—	—	—	14 533 033	14 533 033
Transaction fee expense		—	—	—	—	(4 018 567)	(4 018 567)
Fair value gains on derivatives designated as hedges		—	—	22 819	—	—	22 819
Foreign currency income		497 605	—	—	—	—	497 605
Foreign currency expense		(353 212)	—	—	—	—	(353 212)
Funeral plan income[1]		—	905 847	—	—	—	905 847
Credit impairment losses	26	—	—	—	(3 507 754)	—	(3 507 754)
2021							
Interest income	24	—	—	—	16 544 268	—	16 544 268
Interest income and gains from income funds		—	113 687	—	—	—	113 687
Interest expense	24	—	—	—	—	(4 984 423)	(4 984 423)
Loan fee income	24			—	968 658	—	968 658
Loan fee expense	24	—	—	—	(71 405)	—	(71 405)
Transaction fee income	24	—	—	—	—	12 039 376	12 039 376
Transaction fee expense		—	—	—	—	(3 331 885)	(3 331 885)
Fair value gains on derivatives designated as hedges		—	—	46 517	—	—	46 517
Foreign currency income		409 165	—	—	—	—	409 165
Foreign currency expense		(298 413)	—	—	—	—	(298 413)
Funeral plan income[1]		—	650 249	—	—	—	650 249
Credit impairment losses	26	—	—	—	(7 824 721)	—	(7 824 721)

(1) *Funeral plan income has been disclosed in the current year under financial assets at FVTPL. Comparative disclosure has been adjusted. This does not impact on any other disclosures or measurements.*

33.7 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

Determination of fair values and valuation processes

Fair values are market-based, calculated 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 liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques is an outcome of internal discussion and deliberation between members of the finance team who have modelling and valuation experience. The valuations are reported to the CFO and audit committee. Changes in fair values are analysed at each reporting date.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.7 Fair value hierarchy and classification of financial assets and financial liabilities continued

Valuation processes continued

Hierarchy of fair value of financial instruments

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 those assets and liabilities measured at FVTPL and those measured using amortised cost. The table below summarises the classification of financial assets and financial liabilities and their fair values.

		GROUP								
		At FVTPL			At FVOCI	At amortised cost				
R'000	Note	Financial assets	Held for trading	As hedging instruments	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2022										
Financial assets										
Cash, cash equivalents and money market funds	4	–	–	–	–	34 238 828	–	34 238 828	34 238 828	Level 2[2]
Financial assets at FVTPL	5	–	–	–	–	–	–	–	–	Level 2
Term deposits investments	7	–	–	–	–	722 190	–	722 190	722 190	Level 2
Financial investments at amortised cost	6	–	–	–	–	62 939 724	–	62 939 724	62 796 629	Level 2
Financial assets – equity instruments at FVOCI	11	–	–	–	72 680	–	–	72 680	72 680	Level 3
Net loans and advances – Retail	8	–	–	–	–	54 437 597	–	54 437 597	55 988 561	Level 3
Net loans and advances – Business	8	–	–	–	–	5 564 942	–	5 564 942	5 564 942	Level 3
Net loans and advances – Mortgage	8	–	–	–	–	6 546 564	–	6 546 564	6 546 564	Level 3
Other receivables	9	–	–	–	–	2 648 171	–	2 648 171	2 648 171	Level 2[2]
Funeral plan income receivable[3]		477 823	–	–	–	–	–	477 823	477 823	Level 3
Derivative assets[1]	42	–	14 586	–	–	–	–	14 586	14 586	Level 2
Financial liabilities										
Deposits and bonds		–	–	–	–	–	134 458 570	134 458 570	136 010 764	
Listed bonds	17	–	–	–	–	–	1 254 438	1 254 438	1 252 243	Level 2
Unlisted fixed-term institutional deposits	17	–	–	–	–	–	805 755	805 755	792 932	Level 2
Deposits	17	–	–	–	–	–	132 398 377	132 398 377	133 965 589	Level 2
Derivative liabilities[1]	42	–	15 271	18 577	–	–	–	33 848	33 848	Level 2
Trade and other payables	18	–	–	–	–	–	2 218 180	2 218 180	2 218 180	Level 2[2]

[1] *Cash flow hedges.*

[2] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

[3] *Funeral plan income receivable has been classified as financial assets FVTPL, in line with the group's accounting policies. Refer to note 2.18.6 and 33.6.*

		GROUP								
		At FVTPL			At FVOCI	At amortised cost				
R'000	Note	Financial assets	Held for trading	As hedging instrument	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2021										
Financial assets										
Cash, cash equivalents and money market funds	4	–	–	–	–	49 318 269	–	49 318 269	49 318 269	Level 2[2]
Financial assets at FVTPL	5	2 969 740	–	–	–	–	–	2 969 740	2 969 740	Level 2
Term deposits investments	7	–	–	–	–	312 859	–	312 859	312 859	Level 2
Financial investments at amortised cost	6	–	–	–	–	34 993 528	–	34 993 528	34 814 623	Level 2
Financial assets – equity instruments at FVOCI	11	–	–	–	69 340	–	–	69 340	69 340	Level 3
Net loans and advances – Retail	8	–	–	–	–	46 801 362	–	46 801 362	47 558 664	Level 3
Net loans and advances – Business	8	–	–	–	–	4 972 253	–	4 972 253	4 972 253	Level 3
Net loans and advances – Mortgage	8	–	–	–	–	5 415 140	–	5 415 140	5 415 140	Level 3
Other receivables	9	–	–	–	–	1 515 910	–	1 515 910	1 515 910	Level 2[2]
Funeral plan income receivable[3]	9	524 732	–	–	–	–	–	524 732	524 732	Level 3
Derivative assets[1]	42	–	28 011	–	–	–	–	28 011	28 011	Level 2
Financial liabilities										
Deposits and bonds		–	–	–	–	–	120 908 428	120 908 428	120 833 056	
Listed bonds	17	–	–	–	–	–	1 519 970	1 519 970	1 509 439	Level 2
Unlisted fixed-term institutional deposits	17	–	–	–	–	–	856 076	856 076	868 947	Level 2
Deposits	17	–	–	–	–	–	118 532 382	118 532 382	118 454 670	Level 2
Derivative liabilities[1]	42	–	20 710	44 879	–	–	–	65 589	65 589	Level 2
Trade and other payables	18	–	–	–	–	–	1 735 222	1 735 222	1 735 222	Level 2[2]

[1] *Cash flow hedges.*

[2] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

[3] *Funeral plan income receivable has been classified as financial assets FVTPL, in line with the group's accounting policies. Refer to footnote note 2.18.6.*

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.8 Fair value calculation methods, inputs and techniques

Fair values of assets and liabilities reported in this note were market-based to reflect the perspective of a market participant.

Item and description	Valuation technique
Retail loans and advances	The expected present value technique was applied, discounting probability-weighted cash flows at a discount rate that ensures that no day-1 fair value gain or loss arises on new loans. This considers that loans are granted at market-related rates at the time of initiation. The level 3 fair value disclosed for loans and advances required the use of significant judgement by management in determining what a market-based valuation would be. An income approach was used, which calculated an expected present value in terms of a discount rate for a hypothetical market participant applied to the valuation cash flows. Inflows. In summary, this approach calculates a discount rate which reflects the cost to the market participant plus that participant's required rate of return on investment. The cash flows used were probability-weighted and were generated by the same model that was used to generate the impairments on loans and advances. The key aspects involving the application of estimation of these cash flows are set out in note 3.2.3.
Business loans	The fair value of loans and advances that are carried at amortised cost approximates the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of the credit quality of the book.
Financial assets at FVTPL	Financial assets (income funds) with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market inputs with the main assumptions being market input, uplifted with inflation. These instruments are classified as level 2 as the markets that they are quoted on are not considered to be active.
Funeral plan income receivable	The value of the cell captive per the cell captive accounts obtained from Centriq Life Insurance Company Limited.
Term deposits – government resale agreement	The JSE debt market bond pricing model uses the JSE debt market mark-to-market bond yield.
Derivative assets and liabilities	Derivatives, both assets and liabilities, were valued using the income approach. Derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps were fair valued on a discounted basis using forward interest rates and foreign currency rates extracted from observable yield and foreign currency market curves. Foreign exchange contracts were valued using applicable forward rates. The fair value of publicly traded derivatives and securities is based on quoted market values at the reporting date.
Deposits and bonds with call features	Specified terms for future repayment as well as retail deposits with a call feature which allows them to be withdrawn on demand. The fair value of the retail call deposits closely approximates their carrying amount due to their demand nature. The fair values for instruments with specified future repayment terms were calculated as described below.
Listed senior bonds	A market approach was used. Calculations used the all-in closing bond prices provided by the JSE's Interest Rate and Currency (JSE IRC) market. The pricing method used by the JSE IRC links the bond at issue to a liquid government bond (a companion bond). The companion is chosen so as to best fit the characteristics of the Capitec issue, with the time to maturity being the most important factor. Spread information is obtained from market participants and is used to adjust the price subsequent to issue. Very small and very large trades are excluded due to the inherent discounts associated with large trades as well as the premium often charged for odd-lot trades.
Unlisted fixed-term institutional deposits	These comprise unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability.
Retail fixed-term deposits	An income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted, closing Capitec fixed-term deposit rates. The relevant rate used was that which matched the remaining maturity of the fixed deposit.
Secured funding	Is carried at amortised cost which approximates the fair value reported as they bear variable rates of interest.

33.9 Insurance risk

Classification

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

Retail bank

On 31 March 2021, the group disposed of the shares in the cell captives held by Capitec Bank Limited to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec. Refer to note 42 for details surrounding the cell captive transfer.

The group has 2 third-party cell captive agreements where Capitec Ins Proprietary Limited is the sole owner of the cell captives, which are underwritten by a licensed cell captive insurer.

The group is not exposed to any insurance risk on the funeral policies that it offers to clients as this product is fully reinsured.

The credit life policies, however, are not reinsured and, as a result, the group is exposed to insurance risk on this product offering. The insurance risk on the credit book is twofold: (i) the risk that the group has insufficient capital to settle valid claims made by policyholders; (ii) The group has a contractual obligation to maintain the solvency of the cell captive and ensure that sufficient capital exists to meet their obligations should 'shock' events or catastrophes occur.

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

Clients can provide the group with an existing credit life policy, enter into a new policy with the group or take out a similar credit life policy with another insurer.

Risk governance

The board of directors of the group is ultimately responsible for risk management. To assist the board with the responsibility, the group is managed through a system of internal controls functioning throughout the group. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group.

The RCMC, which includes 3 independent non-executive directors, operates in compliance with a formal charter. The committee assists the board in reviewing the processes followed to identify risk and assesses their impact on the group.

The RCMC provides oversight over risk management and is responsible for the following in the insurance operations:

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

The responsibility of challenging the results of the pricing of the insurance portfolio lies with the ALCO.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.9 Insurance risk continued

Risk governance continued

The licensed cell captive insurer has a robust corporate governance and regulatory framework in place to manage insurance risk. The cell captive insurer has the following subcommittees in place which govern and challenge inputs, models and results of valuations:

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

The licensed cell captive insurer performs the actuarial function which includes (but is not limited to) premium rating, capital and reserving requirements, risk mitigating strategies, and is an important part of the own risk and solvency assessment process.

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

General risk management

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

- The pricing of the Insurance business
- Management of the in-force book.

Product design and pricing

The group ensures that the insurance portfolio is priced correctly and understood in detail by following the steps below:

- Rigorous and proactive risk management ensures sound product design and accurate pricing. This includes:
  - challenging assumptions, methodologies and results
  - debating and challenging product relevance, the target market, market competitiveness and treating clients fairly
  - identifying potential risk
  - thoroughly reviewing policy terms and conditions
- Risk-based pricing is applied and the mix of business by channel is also monitored
- Maintaining the appropriate reinsurance cover is an important component of the pricing and product design to keep the insurance risk within appetite.

Management of the in-force book

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

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

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially to the extent that claims paid are more frequent and/or greater than originally estimated. The group manages insurance risk through monitoring incidence rates, claims ratios and business mix.

Rigorous and proactive risk management processes are in place to ensure sound product design and accurate pricing. These include:

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

Detailed risk management per risk type

Insurance risk is the risk of losses due to experience being different from the assumptions used in pricing or reserving such as severity, frequency, trend, volatility, or level of occurrence rates. The credit life policies expose the group to insurance risks such as:

Mortality (death) risk

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

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

Morbidity risk

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

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

Retrenchment risk

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

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

Catastrophe risk

This is the risk that stems from extreme or irregular events contingent on mortality, morbidity or retrenchment whose effects are not expected. The risk is managed as follows:

- Monitoring of trends and experience of the insurance portfolio.

Lapse risk

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

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

Expense risk

This is the risk that expense and/or expense inflation is different from that assumed in pricing and valuations. The group has a rigorous budgeting process in place to manage the risk. The insurance risk is primarily linked to credit risk which is disclosed in detail in note 33.1.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.9 Insurance risk continued

Assessment and management continued

The table below demonstrates the insurance exposure per risk per sum assured at risk before and after reinsurance.

Total exposure by size of sum assured for all credit products

	Before reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**
2022								
R0 – R49 999	19 655 372	30.0	19 758 247	32.5	19 655 372	30.0	12 483 069	37.6
R50 000 – R99 999	14 757 812	22.5	14 654 452	24.1	14 757 812	22.5	8 169 550	24.6
R100 000 – R149 999	11 698 905	17.9	10 729 829	17.6	11 698 905	17.9	5 283 737	15.9
R150 000 – R199 999	9 671 910	14.8	8 269 637	13.6	9 671 910	14.8	3 852 050	11.6
R200 000 – R249 999	9 048 605	13.8	6 907 850	11.4	9 048 605	13.8	3 222 776	9.7
>R250 000	666 739	1.0	504 659	0.8	666 739	1.0	214 064	0.6
Total sum assured	65 499 343	100.0	60 824 674	100.0	65 499 343	100.0	33 225 246	100.0

Insurance exposure per risk:

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:**
  - Loans granted before 10 May 2020: Full outstanding loan balance on event date
  - Loans granted on 10 May 2020 and after: 24 monthly instalments on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

	After reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**
2022								
R0 – R49 999	19 655 372	30.01	19 758 247	32.5	19 655 372	30.0	12 483 069	37.6
R50 000 – R99 999	14 757 812	22.53	14 654 452	24.1	14 757 812	22.5	8 169 550	24.6
R100 000 – R149 999	11 698 905	17.86	10 729 829	17.6	11 698 905	17.9	5 283 737	15.9
R150 000 – R199 999	9 671 910	14.77	8 269 637	13.6	9 671 910	14.8	3 852 050	11.6
R200 000 – R249 999	9 048 605	13.81	6 907 850	11.4	9 048 605	13.8	3 222 776	9.7
>R250 000	666 739	1.02	504 659	0.8	666 739	1.0	214 064	0.6
Total sum assured	65 499 343	100.0	60 824 674	100.0	65 499 343	100.0	33 225 246	100.0

	Before reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**
2021								
R0 – R49 999	18 554 439	31.4	19 001 727	33.0	18 554 439	31.4	11 839 326	39.3
R50 000 – R99 999	14 260 064	24.2	14 295 316	24.8	14 260 064	24.2	7 684 966	25.5
R100 000 – R149 999	10 760 940	18.2	10 365 013	18.0	10 760 940	18.2	4 799 392	15.9
R150 000 – R199 999	7 849 491	13.3	7 276 022	12.6	7 849 491	13.3	3 130 905	10.4
R200 000 – R249 999	7 188 112	12.2	6 271 961	10.9	7 188 112	12.2	2 552 521	8.5
>R250 000	412 200	0.7	381 543	0.7	412 200	0.7	127 087	0.4
Total sum assured	59 025 246	100.0	57 591 582	100.0	59 025 246	100.0	30 134 197	100.0

Insurance exposure per risk:

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:** Full outstanding loan balance on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

	After reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**	**Balance R'000**	**%**
2021								
R0 – R49 999	–	–	19 001 727	33.0	18 554 439	31.4	11 839 326	39.3
R50 000 – R99 999	–	–	14 295 316	24.8	14 260 064	24.2	7 684 966	25.5
R100 000 – R149 999	–	–	10 365 013	18.0	10 760 940	18.2	4 799 392	15.9
R150 000 – R199 999	–	–	7 276 022	12.6	7 849 491	13.3	3 130 905	10.4
R200 000 – R249 999	–	–	6 271 961	10.9	7 188 112	12.2	2 552 521	8.5
>R250 000	–	–	381 543	0.7	412 200	0.7	127 087	0.4
Total sum assured	–	–	57 591 582	100.0	59 025 246	100.0	30 134 197	100.0

Insurance risk mitigation

The insurance risk is mitigated by diversification across geographical areas, industries and employers.

The group can purchase reinsurance through its cell captive facility as part of its risk mitigation programme. Reinsurance transfers risk away from the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserving for claims. The variability of risks is improved by reinsurance cover which is reviewed annually. Currently, the group only reinsures funeral policies.

Process to determine significant assumptions

Insurance liabilities: Unearned premium provision

The provision for unearned premiums represents the proportion of the current reporting period's premiums that relate to risk periods extending into the following reporting period. No provision is held for unearned premiums as all contracts have monthly premiums which are earned by the end of the current reporting period.

Notes to the financial statements continued

Year ended 28 February 2022

33. Financial risk management continued

33.9 Insurance risk continued

Insurance liabilities: Premium deficiency provision

The group does not hold a premium deficiency provision as the business is profitable and is expected to remain profitable.

Insurance liabilities: Incurred but not reported (IBNR) provision

The insurance liabilities comprise of a provision for IBNR claims. The IBNR provision is measured at the best estimate of ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. The group calculates the IBNR provision by applying the Bornhuetter-Ferguson method to paid claims data.

For incident periods that are up to 75% developed, the development factors and loss ratios are derived from the group's historical claims data. For incident periods that are less than 75% developed, the group applies actuarial judgement together with available data to estimate the ultimate loss ratio.

Sensitivities

The following table sets out what the IBNR liability would be if the key inputs, being the development factors and the loss ratios which are both based on historical claims data, were changed as set out below:

R'000	2022	2021
Retrenchment	221 230	221 887
Death	73 187	4 061
Disability	64 893	41 297
Total IBNR provision	**359 310**	**267 245**
Retrenchment	254 415	255 170
Death	78 676	4 365
Disability	74 627	49 333
Total IBNR provision with added sensitivities[1]	**407 718**	**308 868**

[1] Key inputs used in determining the IBNR liability were increased by the following:
- *15% (2021: 15%) retrenchment*
- *15% (2021: 15%) morbidity*
- *7.5% (2021: 7.5%) mortality*

34. Retirement benefits

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined contribution fund, is administered independently of the group and is subject to the Pension Funds Act, Act 24 of 1956. The amount contributed is included in salaries and bonus cost as per note 27.	483 409	383 523	–	–

Since 1 July 2001, it has been compulsory for all new employees to be members of the provident fund. The group will continue to contribute to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable other than those set out in note 20.

35. Related party transactions

During the year, the company and its subsidiaries in the ordinary course of business entered into various transactions with other group companies.

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Subsidiaries				
Dividends				
Ordinary dividend received (Capitec Bank Limited)	–	–	3 346 086	–
Preference dividend received (Capitec Bank Limited)	–	–	3 207	4 290
Ordinary dividend received (Capitec Ins Proprietary Limited)	–	–	405 364	–
Management fees received – Capitec Bank Limited	–	–	6 181	4 164
(Interests in subsidiaries are disclosed in note 12)				
Joint venture				
Grants paid	9 091	10 822	–	–
Service fees	455	408	–	–
Imvelo Ventures	**9 546**	**11 230**	**–**	**–**
Parties with significant shareholding				
Interest paid	–	4 621	–	–
Brokers' fees	–	176	–	–
Sponsor fees	–	55	–	55
PSG and subsidiaries[1]	**–**	**4 852**	**–**	**55**
Bank account				
Capitec Bank Limited	–	–	713 343	–
Loans due (to)/from:				
Capitec Bank Limited[3]	–	–	(13 681)	(16 703)
Key management[2]				
Key management employees' remuneration				
Salaries and other short-term benefits	53 116	37 695	–	–
Post-employment benefits	1 934	781	–	–
Share-based payments	47 126	28 112	–	–
Key management compensation paid by subsidiaries[2]	**102 176**	**66 588**	**–**	**–**

[1] Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth. PSG Capital is the corporate advisor and sponsor of the group and is no longer a related party with significant shareholding due to the unbundling of the group.

[2] Key management is considered to be the members of the group EXCO, excluding development members. Key management compensation excludes directors' remuneration. The members of the group EXCO are the prescribed officers of the company.

[3] Refer to note 36.6 for movements.

Refer to note 44 for details of the loan provided by the company to Capitec Ins Proprietary Limited for the transfer of cell captives at carrying amount between subsidiaries.

Notes to the financial statements continued

Year ended 28 February 2022

35. Related party transactions continued

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Loans and advances to directors and other key management employees advanced by subsidiaries and included in loans and advances to clients in respect of the share option scheme and retail loans[(1)]				
Loans outstanding at the beginning of the year	2 965	1 312	—	—
Loans advanced during the year	116	2 022	—	—
Interest and fees charged on loans during the year	169	93	—	—
Loan repayments during the year	(280)	(462)	—	—
Loans outstanding at the end of the year	2 970	2 965	—	—
Retail deposits from directors and other key management employees[(2)]				
Deposits at the beginning of the year	18 253	17 605	—	—
Interest earned during the year	730	859	—	—
Deposits/(Withdrawals) made during the year	18 538	(211)	—	—
Deposits at the end of the year	37 521	18 253	—	—

[(1)] *Loans to other key management employees by subsidiaries have fixed repayment terms and bear interest at the official rate of interest for individuals as determined by the South African Revenue Service.*

[(2)] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

Directors' interest in agreements

All directors of Capitec Bank Holdings Limited have given notice that they did not have a material interest in any significant agreement with the company or any of its subsidiaries which could have given rise to a conflict of interest during the year.

Directors' interest in share capital[(1)]

At year-end, the directors held, in aggregate, directly or indirectly, beneficially or non-beneficially, interests in 21.9 million (2021: 22.8 million) Capitec Bank Holdings Limited shares, equivalent to 18.8% (2021: 19.7%) of the issued ordinary share capital. The individual interests of the directors including those who resigned and retired during the year were as follows:

	Number of shares held					
	Beneficial		Non-beneficial		Total	
Ordinary shares	Direct	Indirect**	Direct	Indirect**	Shares	%
2022						
SL Botha *(chairman)*	—	—	—	—	—	—
AP du Plessis*	—	887 315	—	—	887 315	0.76
SA du Plessis	700	—	—	—	700	—
MS du Pré le Roux[(2)]	—	—	—	13 190 043	13 190 043	11.36
CH Fernandez	—	—	—	—	—	—
GM Fourie*	1 861	1 009 203	—	7 707	1 018 771	0.88
V Mahlangu	—	—	—	—	—	—
TE Mashilwane	—	—	—	—	—	—
NS Mashiya*	15 774	2 624	—	—	18 398	0.02
JD McKenzie[(3)]	—	—	—	—	—	—
DP Meintjes	—	—	—	—	—	—
PJ Mouton	—	6 685 622	—	66 914	6 752 536	5.82
CA Otto[(4)]	1 092	—	—	—	1 092	—
JP Verster	—	—	—	—	—	—
Total shares held[(1)]	19 427	8 584 764	—	13 264 664	21 868 855	18.84
2021						
SL Botha *(chairman)*	—	—	—	—	—	—
AP du Plessis*	280	900 315	—	—	900 595	0.78
SA du Plessis[(5)]	700	—	—	—	700	—
MS du Pré le Roux[(2)]	—	—	—	13 190 043	13 190 043	11.41
CH Fernandez[(5)]	—	—	—	—	—	—
GM Fourie*	14 732	995 127	—	7 707	1 017 566	0.88
V Mahlangu[(5)]	—	—	—	—	—	—
K Makwane[(6)]	—	—	—	—	—	—
TE Mashilwane[(7)]	—	—	—	—	—	—
NS Mashiya*	15 108	—	—	—	15 108	0.01
DP Meintjes	—	—	—	—	—	—
JD McKenzie	—	—	—	—	—	—
PJ Mouton	—	6 685 622	—	66 914	6 752 536	5.84
CA Otto[(4)]	1 092	—	—	919 418	920 510	0.80
JP Verster	—	—	—	—	—	—
Total shares held	31 912	8 581 064	—	14 184 082	22 797 058	19.72

* *Executive.*

** *Includes shareholding through associates as defined in terms of the JSE Listings Requirements.*

[(1)] *No transactions occurred after year-end and before the date of approval of the financial statements that can impact any shareholding of any director.*

[(2)] *Mr MS du Pré le Roux's associates, Limietberg Sekuriteit Proprietary Limited (Limietberg) and Kalander Sekuriteit Proprietary Limited (Kalander) underwent a restructure resulting in Limietberg transferring Capitec Bank Holdings Limited (Capitec) shares to Kalander such that Limietberg's shareholding in Capitec is 4.89% and Kalander's shareholding in Capitec is 5.95%. Further to announcements released on Stock Exchange News Service (SENS) on 20 December 2018 and 1 July 2021, respectively, relating to the hedging and financing transaction over a portion of a shareholding in Capitec ('2018 transaction') held by Kalander and due to the expiry*
and financing repayment date of the 2018 transaction, Kalander concluded a new hedging and financing transaction over 330 000 shares on 30 July 2021. On each of 15 and 19 November 2021, Kalander concluded new hedging and financing transactions over 165 000 Capitec shares, respectively, and on 20 December 2021, Kalander concluded a further new hedging and financing transaction over 590 000 Capitec shares. In aggregate, 4.3 million Capitec shares are subject to the hedging transactions as at 28 February 2022 (2021: 4.1 million). Financing facilities are covered by 3.2 million Capitec shares. The intention is to cash-settle the hedging transactions.

[(3)] *Mr JD McKenzie retired on 28 May 2021.*

[(4)] *Mr CA Otto resigned as a director of Peter D Wimsey & Associates Proprietary Limited and it is therefore no longer his associate. In the prior year, Mr Otto's associate, Peter D Wimsey & Associates Proprietary Limited, concluded a financial transaction which consists of a loan agreement securitised by a simultaneous collar hedge and equity lending transaction over 200 000 Capitec Bank Holdings ordinary shares as announced on SENS on 1 June 2020. The intention is to cash-settle the transaction at maturity.*

[(5)] *Professor SA du Plessis, Ms CH Fernandez and Mr V Mahlangu were appointed on 25 September 2020.*

[(6)] *Mr K Makwane resigned on 25 September 2020.*

[(7)] *Ms TE Mashilwane was appointed on 6 March 2020.*

Notes to the financial statements continued

Year ended 28 February 2022

35. Related party transactions continued

Directors' interest in share incentive scheme – options

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/Options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
2022								
AP du Plessis (direct beneficial)	28 March 2021	28 March 2018	881.76	3 781	(3 781)	1 495.85	4 May 2021	–
	29 March 2021	1 April 2017	705.93	3 929	(3 929)	1 495.85	4 May 2021	–
	1 April 2021	1 April 2016	473.05	5 605	(5 605)	1 495.85	4 May 2021	–
	28 March 2022	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2022	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 177	–	–	–	3 177
	1 April 2022	1 April 2016	473.05	5 605	–	–	–	5 605
	28 March 2023	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2023	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2023	8 April 2020	973.05	4 152	–	–	–	4 152
	28 March 2024	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2024	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2024	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2024	11 February 2021	1 392.19	–	3 156	–	–	3 156
	29 March 2025	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2025	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2025	11 February 2021	1 392.19	–	3 155	–	–	3 155
	8 April 2026	8 April 2020	973.05	4 152	–	–	–	4 152
	12 April 2026	11 February 2021	1 392.19	–	3 155	–	–	3 155
	12 April 2027	11 February 2021	1 392.19	–	3 155	–	–	3 155
Total options				67 429	(694)			66 735
GM Fourie (direct beneficial)	28 March 2021	28 March 2018	881.76	5 740	(5 740)	1 560.00	16 July 2021	–
	29 March 2021	1 April 2017	705.93	6 377	(6 377)	1 560.00	16 July 2021	–
	1 April 2021	1 April 2016	473.05	9 169	(9 169)	1 560.00	16 July 2021	–
	28 March 2022	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2022	1 April 2017	705.93	6 377	–	–	–	6 377
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	1 April 2022	1 April 2016	473.05	9 169	–	–	–	9 169
	28 March 2023	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2023	1 April 2017	705.93	6 376	–	–	–	6 376
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2023	8 April 2020	973.05	6 676	–	–	–	6 676
	28 March 2024	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2024	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2024	8 April 2020	973.05	6 676	–	–	–	6 676
	12 April 2024	11 February 2021	1 392.19	–	5 421	–	–	5 421
	29 March 2025	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2025	8 April 2020	973.05	6 676	–	–	–	6 676
	12 April 2025	11 February 2021	1 392.19	–	5 420	–	–	5 420
	8 April 2026	8 April 2020	973.05	6 675	–	–	–	6 675
	12 April 2026	11 February 2021	1 392.19	–	5 420	–	–	5 420
	12 April 2027	11 February 2021	1 392.19	–	5 420	–	–	5 420
Total options				107 556	395			107 951

[1] *The director has 6 months after maturity to exercise the share options.*

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/Options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
2022	28 March 2021	28 March 2018	881.76	1 188	(1 188)	1 390.43	13 April 2021	–
NS Mashiya (direct beneficial)	29 March 2021	1 April 2017	705.93	1 354	(1 354)	1 390.43	13 April 2021	–
	1 April 2021	1 April 2016	473.05	1 948	(1 948)	1 390.43	13 April 2021	–
	28 March 2022	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2022	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	878	–	–	–	878
	1 April 2022	1 April 2016	473.05	1 947	–	–	–	1 947
	28 March 2023	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	877	–	–	–	877
	8 April 2023	8 April 2020	973.05	1 147	–	–	–	1 147
	1 October 2023	1 October 2020	908.58	1 572	–	–	–	1 572
	28 March 2024	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2024	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2024	8 April 2020	973.05	1 147	–	–	–	1 147
	12 April 2024	11 February 2021	1 392.19	–	1 471	–	–	1 471
	1 October 2024	1 October 2020	908.58	1 572	–	–	–	1 572
	29 March 2025	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2025	8 April 2020	973.05	1 147	–	–	–	1 147
	12 April 2025	11 February 2021	1 392.19	–	1 471	–	–	1 471
	1 October 2025	1 October 2020	908.58	1 572	–	–	–	1 572
	8 April 2026	8 April 2020	973.05	1 146	–	–	–	1 146
	12 April 2026	11 February 2021	1 392.19	–	1 471	–	–	1 471
	1 October 2026	1 October 2020	908.58	1 571	–	–	–	1 571
	12 April 2027	11 February 2021	1 392.19	–	1 470	–	–	1 470
Total options				27 087	1 393			28 480
Total options held by directors				202 072	1 094			203 166

[1] *The director has 6 months after maturity to exercise the share options.*

Notes to the financial statements continued

Year ended 28 February 2022

35. Related party transactions continued

Directors' interest in share incentive scheme – SARs

Director	Maturity date[(1)]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised)/SARs granted Number of SARs	(SARs exercised)/SARs granted Market price R	(SARs exercised)/SARs granted Exercise date	Closing balance Number of SARs
2022	28 March 2021	28 March 2018	881.76	3 781	(3 781)	1 495.85	4 May 2021	–
AP du Plessis	29 March 2021	1 April 2017	705.93	3 929	(3 929)	1 495.85	4 May 2021	–
(direct beneficial)	1 April 2021	1 April 2016	473.05	5 605	(5 605)	1 495.85	4 May 2021	–
	28 March 2022	28 March 2018	881.76	3 780	–	–		3 780
	29 March 2022	1 April 2017	705.93	3 928	–	–		3 928
		29 March 2019	1 175.01	3 177	–	–		3 177
	1 April 2022	1 April 2016	473.05	5 605	–	–		5 605
	28 March 2023	28 March 2018	881.76	3 780	–	–		3 780
	29 March 2023	1 April 2017	705.93	3 928	–	–		3 928
		29 March 2019	1 175.01	3 176	–	–		3 176
	8 April 2023	8 April 2020	973.05	4 152	–	–		4 152
	28 March 2024	28 March 2018	881.76	3 780	–	–		3 780
	29 March 2024	29 March 2019	1 175.01	3 176	–	–		3 176
	8 April 2024	8 April 2020	973.05	4 152	–	–		4 152
	12 April 2024	11 February 2021	1 392.19	–	3 156	–		3 156
	29 March 2025	29 March 2019	1 175.01	3 176	–	–		3 176
	8 April 2025	8 April 2020	973.05	4 152	–	–		4 152
	12 April 2025	11 February 2021	1 392.19	–	3 155	–		3 155
	8 April 2026	8 April 2020	973.05	4 152	–	–		4 152
	12 April 2026	11 February 2021	1 392.19	–	3 155	–		3 155
	12 April 2027	11 February 2021	1 392.19	–	3 155	–		3 155
Total SARs				67 429	(694)			66 735
GM Fourie	28 March 2021	28 March 2018	881.76	5 740	(5 740)	1 686.48	1 July 2021	–
(direct beneficial)	29 March 2021	1 April 2017	705.93	6 377	(6 377)	1 686.48	1 July 2021	–
	1 April 2021	1 April 2016	473.05	9 169	(9 169)	1 686.48	1 July 2021	–
	28 March 2022	28 March 2018	881.76	5 739	–	–		5 739
	29 March 2022	1 April 2017	705.93	6 377	–	–		6 377
		29 March 2019	1 175.01	5 107	–	–		5 107
	1 April 2022	1 April 2016	473.05	9 169	–	–		9 169
	28 March 2023	28 March 2018	881.76	5 739	–	–		5 739
	29 March 2023	1 April 2017	705.93	6 376	–	–		6 376
		29 March 2019	1 175.01	5 107	–	–		5 107
	8 April 2023	8 April 2020	973.05	6 676	–	–		6 676
	28 March 2024	28 March 2018	881.76	5 739	–	–		5 739
	29 March 2024	29 March 2019	1 175.01	5 107	–	–		5 107
	8 April 2024	8 April 2020	973.05	6 676	–	–		6 676
	12 April 2024	11 February 2021	1 392.19	–	5 421	–		5 421
	29 March 2025	29 March 2019	1 175.01	5 107	–	–		5 107
	8 April 2025	8 April 2020	973.05	6 676	–	–		6 676
	12 April 2025	11 February 2021	1 392.19	–	5 420	–		5 420
	8 April 2026	8 April 2020	973.05	6 675	–	–		6 675
	12 April 2026	11 February 2021	1 392.19	–	5 420	–		5 420
	12 April 2027	11 February 2021	1 392.19	–	5 420	–		5 420
Total SARs				107 556	395			107 951

[(1)] *The director has 6 months after maturity to exercise the share options.*

Director	Maturity date[(1)]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised)/SARs granted Number of SARs	(SARs exercised)/SARs granted Market price R	(SARs exercised)/SARs granted Exercise date	Closing balance Number of SARs
2022	28 March 2021	28 March 2018	881.76	1 188	(1 188)	1 390.43	13 April 2021	–
NS Mashiya	29 March 2021	1 April 2017	705.93	1 354	(1 354)	1 390.43	13 April 2021	–
(direct beneficial)	1 April 2021	1 April 2016	473.05	1 948	(1 948)	1 390.43	13 April 2021	–
	28 March 2022	28 March 2018	881.76	1 187	–	–		1 187
	29 March 2022	1 April 2017	705.93	1 353	–	–		1 353
		29 March 2019	1 175.01	878	–	–		878
	1 April 2022	1 April 2016	473.05	1 947	–	–		1 947
	28 March 2023	28 March 2018	881.76	1 187	–	–		1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–		1 353
		29 March 2019	1 175.01	877	–	–		877
	8 April 2023	8 April 2020	973.05	1 147	–	–		1 147
	1 October 2023	1 October 2020	908.58	1 572	–	–		1 572
	28 March 2024	28 March 2018	881.76	1 187	–	–		1 187
	29 March 2024	29 March 2019	1 175.01	877	–	–		877
	8 April 2024	8 April 2020	973.05	1 147	–	–		1 147
	12 April 2024	11 February 2021	1 392.19	–	1 471	–		1 471
	1 October 2024	1 October 2020	908.58	1 572	–	–		1 572
	29 March 2025	29 March 2019	1 175.01	877	–	–		877
	8 April 2025	8 April 2020	973.05	1 147	–	–		1 147
	12 April 2025	11 February 2021	1 392.19	–	1 471	–		1 471
	1 October 2025	1 October 2020	908.58	1 572	–	–		1 572
	8 April 2026	8 April 2020	973.05	1 146	–	–		1 146
	12 April 2026	11 February 2021	1 392.19	–	1 471	–		1 471
	1 October 2026	1 October 2020	908.58	1 571	–	–		1 571
	12 April 2027	11 February 2021	1 392.19	–	1 470	–		1 470
Total SARs				27 087	1 393			28 480
Total SARs held by directors				202 072	1 094			203 166

[(1)] *The director has 6 months after maturity to exercise the share options.*

Notes to the financial statements continued

Year ended 28 February 2022

35. Related party transactions continued

Directors' remuneration

The total share option expense relating to directors amounted to R17 772 974 (2021: R14 893 945) and the SAR expense amounted to R102 409 945 (2021: R24 427 123).

R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year at the reporting date
2022						
Executive[(1)]						
AP du Plessis	10 780	94	6 049	—	16 923	5 815
GM Fourie	14 667	99	8 313	—	23 079	9 990
NS Mashiya	6 300	75	3 525	—	9 900	2 711
Non-executive						
SL Botha *(chairman)*	—	—	—	3 250	3 250	—
MS du Pré le Roux	—	—	—	549	549	—
SA du Plessis	—	—	—	1 210	1 210	—
CH Fernandez	—	—	—	735	735	—
V Mahlangu	—	—	—	1 199	1 199	—
TE Mashilwane	—	—	—	988	988	—
JD McKenzie[(2)]	—	—	—	219	219	—
DP Meintjes	—	—	—	950	950	—
PJ Mouton	—	—	—	799	799	—
CA Otto	—	—	—	973	973	—
JP Verster	—	—	—	1 310	1 310	—
Total directors' remuneration	31 747	268	17 887	12 182	62 084	18 516
2021						
Executive[(1)]						
AP du Plessis	10 106	85	3 369	—	13 560	4 797
GM Fourie	13 000	90	4 333	—	17 423	7 712
NS Mashiya	5 214	59	2 000	—	7 273	2 236
Non-executive						
SL Botha *(chairman)*	—	—	—	2 500	2 500	—
MS du Pré le Roux	—	—	—	520	520	—
SA du Plessis[(3)]	—	—	—	282	282	—
CH Fernandez[(4)]	—	—	—	282	282	—
V Mahlangu[(5)]	—	—	—	282	282	—
K Makwane	—	—	—	371	371	—
TE Mashilwane[(6)]	—	—	—	729	729	—
JD McKenzie	—	—	—	1 550	1 550	—
DP Meintjes	—	—	—	880	880	—
PJ Mouton	—	—	—	720	720	—
CA Otto	—	—	—	870	870	—
JP Verster	—	—	—	1 100	1 100	—
Total directors' remuneration	28 320	234	9 702	10 086	48 342	14 745

(1) The executive directors are prescribed officers of the company.
(2) Mr JD McKenzie retired on 28 May 2021.
(3) Professor SA du Plessis was appointed to the board on 25 September 2020 and was appointed as a member of the RCMC.
(4) Ms CH Fernandez was appointed to the board on 25 September 2020 and was appointed as a member of the audit committee.
(5) Mr V Mahlangu was appointed to the board on 25 September 2020 and was appointed as a member of the RCMC.
(6) Ms TE Mashilwane was appointed to the board on 6 March 2020 and was appointed as a member of the audit committee on the same date. Ms Mashilwane was appointed as the chairman of the social, ethics and sustainability committee on 25 September 2020.

Prescribed officers' remuneration

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year at the reporting date
2022					
R Butler	7 500	53	5 542	13 095	3 446
W de Bruyn	7 593	537	4 260	12 390	4 096
KR Kumbier	6 055	284	3 387	9 726	2 606
HAJ Lourens	8 000	56	4 489	12 545	4 315
F Viviers	4 500	243	2 549	7 292	1 961
Total prescribed officers' remuneration[(1)]	33 648	1 173	20 227	55 048	16 424
2021					
W de Bruyn	7 118	78	2 373	9 569	2 703
KR Kumbier	5 767	205	1 922	7 894	4 345
HAJ Lourens	7 411	51	2 500	9 962	2 848
NST Motjuwadi	3 527	45	1 181	4 753	1 009
A Olivier[(2)]	1 530	15	—	1 545	—
L Venter[(3)]	445	5	—	450	—
F Viviers	3 874	51	1 333	5 258	1 139
Total prescribed officers' remuneration[(1)]	29 672	450	9 309	39 431	12 044

(1) The members of the group EXCO are prescribed officers of the company.
(2) Mr A Oliver retired on 30 April 2020.
(3) Mr L Venter retired on 31 May 2020.

The total share option expense relating to the prescribed officers above amounted to R32 792 165 (2021: R17 943 146) and the SARs expense amounted to R33 781 977 (2021: R14 563 509). This expense includes the movement on all tranches.

Financial assistance amounting to Rnil (2021: R1 795 440) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at the reporting date amounted to R2 753 838 (2021: R2 743 646).

Notes to the financial statements continued

Year ended 28 February 2022

36. Notes to the statements of cash flows

36.1 Cash flow from operations

	GROUP		COMPANY	
R'000	2022	2021	2022	2021
Net profit before tax and equity-accounted earnings	10 898 557	5 595 280	3 753 410	(60 071)
Deduct interest income	(17 454 315)	(16 544 268)	(479)	(547)
Deduct other income (interest on investments at FVTPL)	(14 903)	(113 687)	–	–
Add back interest expenses	4 837 898	4 984 423	–	–
Add back interest received	16 680 581	16 728 799	479	547
Deduct interest paid	(4 852 841)	(5 001 113)	–	–
Deduct Insurance recovery relating to riots	(198 292)	–	–	–
Adjusted for non-cash items				
Movement in provision for credit impairment[8]	(239 180)	4 157 314	–	–
Bad debts written off	6 185 503	6 378 680	–	–
Reversal of impairment of property and plant	(4 124)	–	–	–
Loss due to the civil unrest	57 952	–	–	–
Lease liability remeasurement	(16 193)	(6 431)	–	–
Impairment of investment in associates	–	122 202	–	65 682
Depreciation	603 169	593 342	–	–
Unrealised forex (gain)/loss	7 114	(5 012)	–	–
Depreciation – right-of-use assets – premises	397 422	407 329	–	–
Amortisation of intangible assets	223 496	241 268	–	–
Loss on disposal of assets	29 137	10 744	–	–
Share-based employee costs – options	54 272	31 575	–	–
Other asset write-offs	25 209	616	–	–
Share-based employee costs – Izindaba Ezinhle Employee Share Scheme – equity-settled	515 809	–	–	–
Movements in assets and liabilities				
Loans and advances[1]	(15 288 226)	(5 672 397)	–	–
Financial investments (Business bank)[4]	–	(60 422)	–	–
Other receivables[5]	(1 627 706)	347 108	261	1 544
Net insurance receivable	309 181	(769 693)	–	–
Derivatives[9]	(41 703)	(43 504)	–	–
Deposits and other wholesale funding[2]	13 814 076	19 411 196	–	–
Trade and other payables[3]	1 749 988	295 302	1 821	(3)
Movements in employee benefit liabilities	72 718	(31 784)	–	–
Share-based employee costs – SARs	175 519	(5 869)	–	–
Non-cash flow item on right-of-use assets	–	(10 039)	–	–
Fair value gains/losses reclassified to profit or loss[9]	22 819	46 517	–	–
Non-cash flow items relating to settlement of share options	(61 691)	–	–	–
Non-cash B-BBEE transaction costs	(1 127)	–	–	–
Cash flow from operations	**16 860 119**	**31 087 476**	**3 755 492**	**7 152**

	GROUP		COMPANY	
R'000	2022	2021	2022	2021
[1] *Movement in loans and advances to clients*	(15 288 226)	(5 672 397)	–	–
Gross loans and advances opening balance	75 026 356	75 783 251	–	–
Gross loans and advances closing balance	(84 107 924)	(75 026 356)	–	–
Movement in accrued interest	(21 155)	(50 612)	–	–
Bad debts written off	(6 185 503)	(6 378 680)	–	–
[2] *Deposits and wholesale funding*[6]	13 814 076	19 411 196	–	–
Movement in deposits	13 864 397	18 901 681	–	–
Movement in other wholesale funding	(50 321)	509 515	–	–
[3] *Trade and other payables*	1 749 988	295 302	1 821	(3)
Movement in trade and other payables	1 749 988	295 302	1 821	(3)
[4] *Financial investments at amortised costs*[7]	–	(60 422)	–	–
Movement in financial investments/closing balance	–	(41 020)	–	–
Movement in accrued interest	–	(19 402)	–	–
[5] *Other receivables*	(1 627 706)	347 108	–	–
Opening balance	1 637 278	2 047 151	–	–
Closing balance	(3 284 984)	(1 637 278)	–	–
Leases	–	(62 765)	–	–
Non-cash item	20 000	–	–	–

[6] *Relates to deposits and unlisted negotiable instruments and other wholesale funding. Refer to note 17.*

[7] *Relates to financial instruments held by the Business bank. All financial instruments were transferred to Capitec Bank Limited as part of the divisionalisation of Mercantile Bank Limited on 1 December 2020.*

[8] *ECL – non-loan book is included in the movement in provision for credit impairments.*

[9] *Derivatives have been disaggregated into 2 lines being fair value gains/losses reclassified to profit or loss and derivatives. The presentation of the comparative information has also been updated. The total cash flow from operations as previously reported has not been impacted by this disaggregation. This disaggregation is in line with the requirements of IAS 7.*

36.2 Lease liability cash flow

	GROUP	
R'000	2022	2021
Lease liability cash flow	534 357	486 450
Lease liability opening balance	2 500 977	2 794 847
New leases	363 646	192 660
Terminations	(119 812)	(238 271)
IFRS 16 interest	214 240	238 191
Lease liability closing balance	(2 424 694)	(2 500 977)
Total cash flow lease liability	534 357	486 450
Portion included in operating activities	214 240	238 191
Portion included in financing activities	320 117	248 259

Notes to the financial statements continued

Year ended 28 February 2022

36. Notes to the statements of cash flows continued

36.3 Income tax paid

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	159 520	9 791	–	–
Income statement charge	2 407 724	1 130 133	22	–
Movement in deferred tax	631 802	352 009	–	–
Tax effect on settlement of share options taken to equity	(52 513)	24 886	–	–
Balance at the end of the year	(301 951)	(159 520)	–	–
Income tax paid	**2 844 582**	**1 357 299**	**22**	**–**

36.4 Dividends paid

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Balance at the beginning of the year	5 552	7 392	5 552	7 392
Ordinary dividend	3 237 556	–	3 237 556	–
Preference dividend	3 207	4 290	3 207	4 290
Balance at the end of the year	(8 263)	(5 552)	(8 263)	(5 552)
Dividends paid	**3 238 052**	**6 130**	**3 238 052**	**6 130**

36.5 Realised loss on settlement of employee share options less participants' contributions

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Shares acquired in the current year	(17 452)	(160 381)	–	–
Proceeds on settlement of options (strike price paid)	20 773	72 104	–	–
Strike price of options	55 884	72 104	–	–
Adjusted for non-cash flow items:				
– Net settlement of options	(35 111)	–	–	–
Total (loss)/profit on settlement of employee share options	**3 321**	**(88 277)**	**–**	**–**

36.6 Net debt reconciliation group loans

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Group loans payable at the beginning of the year	–	–	16 703	15 252
Loans from group companies – granted	–	–	1 136 077	–
Loans from group companies – repaid	–	–	(1 139 100)	–
Other cash flows	–	–	–	1 451
Group loans payable at the end of the year	**–**	**–**	**13 680**	**16 703**

37. Commitments and contingent liabilities

R'000	GROUP 2022	GROUP 2021	COMPANY 2022	COMPANY 2021
Capital commitments – approved by the board				
Contracted for:				
Property and equipment	180 622	263 780	–	–
Intangible assets	26 874	133 897	–	–
Not contracted for:			–	–
Property and equipment	785 927	676 465	–	–
Intangible assets	246 893	256 974	–	–
Total capital commitments	**1 240 316**	**1 331 116**	**–**	**–**
Loan commitments	**11 482 830**	**5 139 006**	**–**	**–**
Retail bank	11 300 483	4 924 124	–	–
Business bank	182 347	214 882	–	–
Guarantees – Business bank	**688 834**	**578 757**	**–**	**–**
Letters of credit	**12 330**	**2 894**	**–**	**–**
Total loan commitments, guarantees and letters of credit	**12 183 994**	**5 720 657**	**–**	**–**
Contingent liabilities				
VAT	26 992	26 992	–	–

38. Borrowing powers

In terms of the memorandum of incorporation of Capitec Bank Holdings Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

These borrowing powers are subject to the limitations of the Banks Act and section 45(3)(a)(ii) of the Companies Act. A special resolution was passed at the AGM on 28 May 2021 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company to the company, on the terms and conditions and for the amounts that the board may determine.

The increase in borrowings from the previous year is for the purposes of funding the general banking business, including future expansion of the loan book and capital expenditure.

Notes to the financial statements continued

Year ended 28 February 2022

39. Share incentive schemes

39.1 Share incentive trust

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited. The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of Capitec Bank Holdings Limited and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of Capitec Bank Holdings Limited are financed by the relevant subsidiary.

The group allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2021: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2021: 20%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The group offers share options to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 2 to 6 years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

Number	2022 Weighted average share price R	2022	2021
Options issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	913.95	551 770	490 705
Options granted	1 413.03	110 994	223 747
Options cancelled and/or lapsed	996.64	(20 845)	(1 072)
Options exercised	689.37	(84 421)	(161 610)
Balance at the end of the year	1 007.37	557 498	551 770
SARs issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	913.95	551 770	427 465
SARs granted	1 369.21	110 994	223 747
SARs cancelled and/or lapsed	996.64	(20 845)	(1 072)
SARs exercised	689.37	(84 421)	(98 370)
Balance at the end of the year	987.60	557 498	551 770

Analysis of outstanding share options by year of maturity	2022 Weighted average strike price R	2022 Number	2021 Weighted average strike price R	2021 Number
Financial year				
2021/2022	—	—	689.37	84 421
2022/2023	821.56	102 285	820.67	105 873
2023/2024	944.69	122 099	930.78	126 089
2024/2025	1 030.67	125 162	956.37	102 105
2025/2026	1 045.91	101 304	965.96	77 383
2026/2027	1 028.15	80 464	930.48	55 899
2027/2028	1 391.36	26 184	—	—
Total outstanding SARs	1 007.37	557 498	913.95	551 770

Number	2022	2021
Shares purchased/issued during the year	84 421	161 610
Shares utilised for settlement of options	(84 421)	(161 610)
Settled in shares	(84 421)	(161 610)
Options exercised	(84 421)	(161 610)

Analysis of outstanding SARs by year of maturity	2022 Weighted average strike price R	2022 Number	2021 Weighted average strike price R	2021 Number
Financial year				
2021/2022	—	—	689.37	84 421
2022/2023	821.56	102 285	820.67	105 873
2023/2024	930.49	122 099	930.78	126 089
2024/2025	1 009.98	125 162	956.37	102 105
2025/2026	1 023.11	101 304	965.96	77 383
2026/2027	1 002.52	80 464	930.48	55 899
2027/2028	1 340.97	26 184	—	—
Total outstanding SARs	987.60	557 498	913.95	551 770

Notes to the financial statements continued

Year ended 28 February 2022

39. Share incentive schemes continued

39.2 Izindaba Ezinhle Employee Share Scheme

In terms of the scheme Capitec Bank Holdings Limited (Capitec) ordinary shares were issued to participating employees.

Capitec Bank Limited (Capitec Bank) had an obligation to pay 50% of the subscription price to Capitec on behalf of the employees, with the remaining balance being funded through loans provided to the participating employees by Capitec. Capitec had an obligation to issue the shares to the employees against the payment received from Capitec Bank. A 5-year trade restriction is imposed in respect of the issued shares. Capitec will retain 50% of the dividends for the purpose of settling the accrued interest payable on the loan and the remaining 50% of the dividends will be paid to the participating employees. Employees do not need to be in the employment of the group on any predetermined dates in future, therefore vesting occurred on the grant date.

The employees will be required to repay the loans and interest thereon at the end of the 5-year period. Capitec's recourse is limited to the number of shares that were issued to the employees in terms of the pledge and session agreements with the employees. The loans to the employees will not be recognised in terms of IFRS 9 *Financial Instruments* as Capitec may not pursue full recourse to the employees in respect of the loans.

	Date awarded	Exercise date	Number of shares
2022			
Shares awarded	22 February 2022	22 February 2027	472 852

Capitec Bank Holdings Limited separate financial statements

The cash in the amount of R491.978 million, received from Capitec Bank on behalf of the employees, was separately recognised in equity in the separate financial statements of Capitec Bank Holdings Limited due to the 5-year trade restriction that was imposed on the shares. The cash was recognised in the statement of cash flows as a cash flow from financing activities. The 472 852 shares may be recognised as issued on expiry of the 5-year trade restriction based on the settlement of the outstanding loan amount. The part of the scheme funded through the loans to the employees from Capitec Bank Holdings Limited is accounted for as equity-settled in both the Capitec Bank Limited and Capitec Bank Holdings Limited separate financial statements. The fair value of the equity instruments granted is measured using a Monte Carlo simulation as further detailed below and amounted to R23.831 million.

Capitec Bank Holdings Limited consolidated financial statements

The cash received from Capitec Bank Limited recognised in equity in the Capitec Bank Holdings Limited separate financial statements was eliminated on consolidation to recognise a share option reserve to account for the transaction as equity-settled for the group. The transaction will be recognised as equity-settled for the group as Capitec shares are issued to the employees of the group.

The transaction represents an in-substance option for the employees to acquire a variable number of shares in future, therefore a share option reserve was recognised on consolidation. The fair value of the equity instruments granted is measured using a Monte Carlo simulation, an option pricing model which takes into account the market price on grant date, the cost of funding as well as an assumption on the actual number of shares that will be delivered. The fair value on the grant date of R515.809 million is recognised in the income statement as part of employee costs, with a corresponding increase in equity as a share option reserve. As there are no service or performance conditions attached to the scheme, the expense is recognised on the grant date.

The following assumptions were used to measure the fair value at the grant date:

Grant date	22 February 2022
Risk-free rate (%)	4.50
Growth rate (%)[1]	4.50
Expected volatility (%)[1]	30
Dividend forecast[2]	Capitec Bank Holdings Limited 5-year dividend forecast
Dividend yield (%)	1.74
Prime lending rate (%)	7.50
Official rate of interest (%)[3]	5
Capitec Bank Holdings Limited share price at the grant date (rand)	2 081
Loan value per share (rand)	1 041
Estimated future loan value/strike price (rand)	1 214
Total loan value (rand)	491 978 863

(1) *The growth rate and expected volatility were determined using the historical share prices of Capitec Bank Holdings Limited. The growth rate is deemed appropriate based on consumer price inflation and the expected volatility excludes the impact of extreme events.*

(2) *The dividends were determined using the dividend forecast up to the 2027 financial year in conjunction with projected future share prices as at each dividend payment date.*

(3) *As defined in section 1(1) of the Income Tax Act.*

39.3 Co-investment plan share option scheme

Capitec Bank Holdings Limited granted share options directly to the employees of Capitec Bank Limited as consideration for services rendered as part of a bonus arrangement and in an effort to retain the services of specific employees.

The fair value of the share options granted are measured on the grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption of the actual percentage of shares that will be delivered.

The fair value on the grant date is recognised in the income statement on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

The strike price of the share options will reduce by 5% per annum over the vesting period.

The share options will vest in equal tranches of 25% at the end of each employment period as follows:

Tranche	Percentage	Vesting period
1	25	4 years
2	25	6 years
3	25	8 years
4	25	10 years

The share-based payment expense was calculated using a Monte Carlo option pricing model, which is reflective of the underlying characteristics of the co-investment plan share option scheme. The fair value on the grant date was recognised in the income statement with a corresponding increase in equity. There are no subsequent measurement considerations as this is an equity-settled share-based payment transaction.

Notes to the financial statements continued

Year ended 28 February 2022

39. Share incentive schemes continued

39.3 Co-investment plan share option scheme continued

The following assumptions were used to measure the fair value at the grant date:

Grant date	8 April 2021
Risk-free rate (%)	4.50
Growth rate (%)[1]	4.50
Expected volatility (%)[1]	30
Dividend forecast[2]	Capitec Bank Holdings Limited 5-year dividend forecast
Dividend yield (%)	1.74
Volume-weighted average price (VWAP)/strike price	1 359
Capitec Bank Holdings Limited share price at the grant date (rand)	1 363
Fair value of share option on grant date	1 829

[1] *The growth rate and expected volatility were determined using the historical share prices of Capitec Bank Holdings Limited. The growth rate is deemed appropriate based on consumer price inflation and the expected volatility excludes the impact of extreme events.*

[2] *The dividends were determined using the dividend forecast up to the 2031 financial year in conjunction with projected future share prices as at each dividend payment date.*

	Date awarded	Exercise date	Grant price	Number of share options
2022				
The following share options were awarded	8 April 2021	8 April 2031	1 829	22 769

40. Share option expense

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. A Black-Scholes option pricing model was used to value the options.

Year granted	Strike price R	Share price on issue date R	Volatility used in valuation %	Dividend yield %	Year maturing[2]	Risk-free rate %	Number of options outstanding	Fair value on issue date ignoring vesting conditions R'000	Expected vesting proportion[1] %	Value taking into account expected vesting proportion R'000
2016/2017	473.05	573.08	36.1	2.3	2022/2023	7.9	31 919	8 189	100.0	8 189
2016/2017	576.29	555.60	36.2	2.1	2022/2023	8.3	2 603	569	100.0	569
2017/2018	705.93	761.37	24.2	1.1	2022/2023	7.4	23 116	6 302	100.0	6 302
2017/2018	705.93	761.37	24.2	1.1	2023/2024	7.5	23 111	6 938	100.0	6 938
2018/2019	881.76	862.83	31.9	1.7	2022/2023	6.9	23 830	6 112	100.0	6 112
2018/2019	—	862.83	31.9	1.7	2023/2024	7.0	23 828	6 867	100.0	6 867
2018/2019	—	862.83	31.9	1.7	2024/2025	7.1	23 826	7 537	100.0	7 537
2019/2020	1 175.01	1 349.99	24.6	1.4	2022/2023	7.5	18 609	7 646	100.0	7 646
2019/2020	—	1 349.99	24.6	1.4	2023/2024	7.4	18 605	8 574	100.0	8 574
2019/2020	—	1 349.99	24.6	1.4	2024/2025	7.5	18 604	9 450	100.0	9 450
2019/2020	—	1 349.99	24.6	1.4	2025/2026	7.6	18 600	10 237	100.0	10 237
2019/2020	1 374.59	1 379.00	19.6	1.1	2022/2023	7.0	2 208	643	100.0	643
2019/2020	—	1 379.00	19.6	1.1	2023/2024	7.2	2 207	776	100.0	776
2019/2020	—	1 379.00	19.6	1.1	2024/2025	7.4	2 207	904	100.0	904
2019/2020	—	1 379.00	19.6	1.1	2025/2026	7.6	2 207	1 022	100.0	1 022
2020/2021	973.05	1 024.70	38.8	1.5	2023/2024	5.8	28 775	9 288	100.0	9 288
2020/2021	—	1 024.70	38.8	1.5	2024/2025	6.4	28 771	10 766	100.0	10 766
2020/2021	—	1 024.70	38.8	1.5	2025/2026	7.1	28 769	12 113	100.0	12 113
2020/2021	973.05	1 024.70	38.8	1.5	2026/2027	7.8	28 762	13 367	100.0	13 367
2020/2021	884.83	881.77	41.8	1.8	2023/2024	4.3	678	174	100.0	174
2020/2021	—	881.77	41.8	1.8	2024/2025	4.8	678	202	100.0	202
2020/2021	—	881.77	41.8	1.8	2025/2026	5.4	678	227	100.0	227
2020/2021	—	881.77	41.8	1.8	2026/2027	6.0	677	249	100.0	249
2020/2021	908.58	1 041.14	42.1	1.5	2023/2024	4.1	1 572	567	100.0	567
2020/2021	—	1 041.14	42.1	1.5	2024/2025	4.6	1 572	638	100.0	638
2020/2021	—	1 041.14	42.1	1.5	2025/2026	5.2	1 572	703	100.0	703
2020/2021	—	1 041.14	42.1	1.5	2026/2027	5.8	1 571	762	100.0	762
2020/2021	1006.83	1 132.50	42.1	1.4	2023/2024	4.1	4 566	1 770	100.0	1 770
2020/2021	—	1 132.50	42.1	1.4	2024/2025	4.6	4 566	2 005	100.0	2 005
2020/2021	—	1 132.50	42.1	1.4	2025/2026	5.2	4 566	2 216	100.0	2 216
2020/2021	—	1 132.50	42.1	1.4	2026/2027	5.8	4 565	2 412	100.0	2 412
2020/2021	911.63	987.25	41.8	1.6	2023/2024	4.3	17 444	5 594	100.0	5 594
2020/2021	—	987.25	41.8	1.6	2024/2025	4.8	17 427	6 371	100.0	6 371
2020/2021	—	987.25	41.8	1.6	2025/2026	5.4	17 409	7 067	100.0	7 067
2020/2021	—	987.25	41.8	1.6	2026/2027	6.0	17 390	7 694	100.0	7 694
2020/2021	1 383.62	1 430.26	42.3	1.0	2023/2024	4.4	357	165	100.0	165
2020/2021	—	1 430.26	42.3	1.0	2024/2025	4.9	357	191	100.0	191
2020/2021	—	1 430.26	42.3	1.0	2025/2026	5.4	356	214	100.0	214
2020/2021	—	1 430.26	42.3	1.0	2026/2027	5.9	356	235	100.0	235
2021/2022	1 375.55	1 351.15	41.8	1.1	2024/2025	5.0	1 386	573	100.0	573
2021/2022	—	1 351.15	41.8	1.1	2025/2026	5.5	1 385	673	100.0	673
2021/2022	—	1 351.15	41.8	1.1	2026/2027	6.1	1 385	763	100.0	763
2021/2022	—	1 351.15	41.8	1.1	2027/2028	6.6	1 385	843	100.0	843
2021/2022	1 392.19	1 405.00	42.2	1.1	2024/2025	4.3	24 812	10 849	100.0	10 849
2021/2022	—	1 405.00	42.2	1.1	2025/2026	4.7	24 808	12 579	100.0	12 579
2021/2022	—	1 405.00	42.2	1.1	2026/2027	5.2	24 804	14 121	100.0	14 121
2021/2022	—	1 405.00	42.2	1.1	2027/2028	5.6	24 799	15 523	100.0	15 523
2021/2022	1 663.60	1 879.85	41.5	2.1	2023/2024	5.1	552	350	100.0	350
2021/2022	—	1 879.85	41.5	2.1	2024/2025	5.6	552	393	100.0	393
2021/2022	—	1 879.85	41.5	2.1	2025/2026	6.0	551	428	100.0	428
2021/2022	—	1 879.85	41.5	2.1	2026/2027	6.4	551	459	100.0	459
2021/2022	1 616.73	1 790.00	41.5	2.6	2023/2024	5.6	404	234	100.0	234
2021/2022	—	1 790.00	41.5	2.6	2024/2025	6.0	404	262	100.0	262
2021/2022	—	1 790.00	41.5	2.6	2025/2026	6.5	403	285	100.0	285
2021/2022	—	1 790.00	41.5	2.6	2026/2027	6.9	403	305	100.0	305
Total							557 498	225 396	100.0	225 396

[1] *Executive employee turnover of 0% per annum (2021: 0%) was used to estimate the likelihood of vesting conditions realising. This realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

[2] *The human resources and remuneration committee (REMCO) approved changes to the performance conditions relating to share options granted in 2017/2018. These performance conditions are that the HEPS growth must exceed the CPI plus the percentage growth in GDP plus 4%, and the attained return on equity (ROE) must outperform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The assumption that both of the above performance conditions would be met was used to estimate the realisation of these vesting conditions. This is re-estimated in terms of IFRS 2 on an annual basis. The 2021 financial year was not considered when determining whether the performance measures were met.*

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41. Share appreciation rights

Data utilised in the valuation of SARs granted

The table below provides detail regarding the data used in the valuation of the SARs to which IFRS 2 has been applied. SARs are expected to vest and are re-estimated on an annual basis.[(1)(5)]

Year granted	Strike price[(3)] R	Year maturing[(4)]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[(2)] %	Liability at year-end R'000
2022								
2016/2017	473.05	2022/2023	3.9	31 919	51 061	98.5	1.0	50 315
2016/2017	576.29	2022/2023	4.3	2 603	3 889	94.6	1.0	3 678
2017/2018	705.93	2022/2023	3.9	23 116	31 615	98.4	1.0	31 112
2017/2018	—	2023/2024	5.2	23 111	31 615	82.0	1.0	25 922
2018/2019	881.76	2022/2023	3.9	23 830	28 415	98.1	1.0	27 870
2018/2019	—	2023/2024	5.2	23 828	28 703	78.5	1.0	22 526
2018/2019	—	2024/2025	5.9	23 826	29 441	65.4	1.0	19 247
2019/2020	1 175.01	2022/2023	3.9	18 609	16 749	97.4	1.0	16 305
2019/2020	—	2023/2024	5.2	18 605	17 607	73.0	1.0	12 859
2019/2020	—	2024/2025	5.9	18 604	18 905	58.4	1.0	11 041
2019/2020	—	2025/2026	6.3	18 600	20 052	48.7	1.0	9 761
2019/2020	1 374.59	2022/2023	4.7	2 208	1 643	77.6	1.0	1 274
2019/2020	—	2023/2024	5.6	2 207	1 868	58.2	1.0	1 087
2019/2020	—	2024/2025	6.1	2 207	2 059	46.5	1.0	958
2019/2020	—	2025/2026	6.5	2 207	2 217	38.8	1.0	860
2020/2021	973.05	2023/2024	5.2	28 775	32 303	63.1	1.0	20 385
2020/2021	—	2024/2025	5.9	28 771	33 526	47.3	1.0	15 857
2020/2021	—	2025/2026	6.3	28 769	34 727	37.8	1.0	13 141
2020/2021	—	2026/2027	6.6	28 762	35 796	31.5	1.0	11 289
2020/2021	908.58	2023/2024	5.6	1 572	1 881	47.0	1.0	885
2020/2021	—	2024/2025	6.1	1 572	1 938	35.2	1.0	683
2020/2021	—	2025/2026	6.5	1 572	1 991	28.2	1.0	562
2020/2021	—	2026/2027	6.8	1 571	2 038	23.5	1.0	479
2020/2021	911.63	2023/2024	5.6	17 444	20 827	47.3	1.0	9 852
2020/2021	—	2024/2025	6.1	17 427	21 440	35.5	1.0	7 602
2020/2021	—	2025/2026	6.5	17 409	22 014	28.4	1.0	6 245
2020/2021	—	2026/2027	6.8	17 390	22 528	23.6	1.0	5 326
2020/2021	884.83	2023/2024	5.6	678	824	49.2	1.0	406
2020/2021	—	2024/2025	6.1	678	846	36.9	1.0	312
2020/2021	—	2025/2026	6.5	678	868	29.5	1.0	256
2020/2021	—	2026/2027	6.8	677	887	24.6	1.0	218
2020/2021	1 006.83	2023/2024	5.6	4 566	5 100	45.3	1.0	2 310
2020/2021	—	2024/2025	6.1	4 566	5 315	33.9	1.0	1 805
2020/2021	—	2025/2026	6.5	4 566	5 510	27.2	1.0	1 497
2020/2021	—	2026/2027	6.8	4 565	5 680	22.6	1.0	1 286
2020/2021	1 392.19	2024/2025	5.9	24 812	21 753	33.0	1.0	7 188
2020/2021	—	2025/2026	6.3	24 808	23 751	25.1	1.0	5 965
2020/2021	—	2026/2027	6.6	24 804	25 420	20.3	1.0	5 149
2020/2021	—	2027/2028	7.0	24 799	26 853	17.0	1.0	4 557
2020/2021	439.64	2023/2024	5.8	357	575	37.7	1.0	217
2020/2021	—	2024/2025	6.2	357	573	28.3	1.0	162
2020/2021	—	2025/2026	6.6	356	569	22.6	1.0	129
2020/2021	—	2026/2027	6.9	356	567	18.8	1.0	107

Year granted	Strike price[(3)] R	Year maturing[(4)]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[(2)] %	Liability at year-end R'000
2022								
2021/2022	367.71	2024/2025	5.9	1 386	2 322	33.2	1.0	771
2021/2022	—	2025/2026	6.3	1 385	2 303	24.9	1.0	574
2021/2022	—	2026/2027	6.6	1 385	2 287	19.9	1.0	456
2021/2022	—	2027/2028	7.0	1 385	2 273	16.6	1.0	378
2021/2022	1 663.60	2024/2025	6.1	552	423	16.4	1.0	69
2021/2022	—	2025/2026	6.5	552	474	12.3	1.0	58
2021/2022	—	2026/2027	6.8	551	516	9.9	1.0	51
2021/2022	—	2027/2028	7.1	551	552	8.2	1.0	45
2021/2022	1 616.73	2024/2025	6.1	404	322	13.7	1.0	44
2021/2022	—	2025/2026	6.5	404	358	10.3	1.0	37
2021/2022	—	2026/2027	6.8	403	387	8.2	1.0	32
2021/2022	—	2027/2028	7.1	403	412	6.8	1.0	28
Total				557 498	654 568	55.2	100.0	361 228

Year granted	Strike price[(3)] R	Year maturing[(4)]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[(2)] %	Liability at year-end R'000
2021								
2016/2017	473.05	2021/2022	3.4	33 143	30 770	98.1	100.0	30 197
2016/2017	—	2022/2023	3.9	33 139	31 382	81.8	100.0	25 667
2016/2017	576.29	2021/2022	3.7	2 603	2 162	93.4	100.0	2 019
2016/2017	—	2022/2023	4.0	2 603	2 232	77.8	100.0	1 737
2017/2018	705.93	2021/2022	3.4	23 969	16 684	97.9	100.0	16 329
2017/2018	—	2022/2023	3.9	23 965	17 523	78.3	100.0	13 716
2017/2018	—	2023/2024	4.4	23 959	18 715	65.2	100.0	12 206
2018/2019	881.76	2021/2022	3.4	24 706	12 863	97.3	100.0	12 511
2018/2019	—	2022/2023	3.9	24 700	14 391	73.0	100.0	10 500
2018/2019	—	2023/2024	4.4	24 698	16 176	58.4	100.0	9 443
2018/2019	—	2024/2025	5.0	24 696	17 857	48.6	100.0	8 684
2019/2020	1 175.01	2022/2023	3.9	19 258	7 323	63.9	100.0	4 677
2019/2020	—	2023/2024	4.4	19 254	9 307	47.9	100.0	4 459
2019/2020	—	2024/2025	5.0	19 253	10 996	38.3	100.0	4 213
2019/2020	—	2025/2026	5.5	19 248	12 518	31.9	100.0	3 995
2019/2020	1 374.59	2022/2023	4.2	2 208	769	44.1	100.0	339
2019/2020	—	2023/2024	4.7	2 207	992	33.1	100.0	328
2019/2020	—	2024/2025	5.3	2 207	1 189	26.4	100.0	314
2019/2020	—	2025/2026	5.8	2 207	1 369	22.0	100.0	302

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Year ended 28 February 2022

41. Share appreciation rights continued

Data utilised in the valuation of SARs granted continued

Year granted	Strike price[3] R	Year maturing[4]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2021								
2020/2021	973.05	2023/2024	4.4	29 649	17 746	29.6	100.0	5 251
2020/2021	—	2024/2025	5.0	29 645	19 966	22.2	100.0	4 428
2020/2021	—	2025/2026	5.5	29 642	22 018	17.7	100.0	3 907
2020/2021	—	2026/2027	6.1	29 635	23 925	14.8	100.0	3 538
2020/2021	908.58	2023/2024	4.7	1 572	1 059	13.5	100.0	143
2020/2021	—	2024/2025	5.3	1 572	1 166	10.1	100.0	118
2020/2021	—	2025/2026	5.8	1 572	1 266	8.1	100.0	103
2020/2021	—	2026/2027	6.4	1 571	1 358	6.8	100.0	92
2020/2021	911.63	2023/2024	4.7	17 964	12 059	13.8	100.0	1 663
2020/2021	—	2024/2025	5.3	17 946	13 271	10.3	100.0	1 372
2020/2021	—	2025/2026	5.8	17 928	14 400	8.3	100.0	1 191
2020/2021	—	2026/2027	6.4	17 909	15 450	6.9	100.0	1 065
2020/2021	884.83	2023/2024	4.7	678	464	15.7	100.0	73
2020/2021	—	2024/2025	5.3	678	509	11.8	100.0	60
2020/2021	—	2025/2026	5.8	678	552	9.4	100.0	52
2020/2021	—	2026/2027	6.4	677	590	7.9	100.0	46
2020/2021	1 006.83	2023/2024	4.7	4 566	2 831	11.8	100.0	333
2020/2021	—	2024/2025	5.3	4 566	3 168	8.8	100.0	280
2020/2021	—	2025/2026	5.8	4 566	3 480	7.1	100.0	246
2020/2021	—	2026/2027	6.4	4 565	3 769	5.9	100.0	222
2020/2021	978.76	2023/2024	4.7	1 307	830	12.2	100.0	102
2020/2021	—	2024/2025	5.3	1 307	924	9.2	100.0	85
2020/2021	—	2025/2026	5.8	1 307	1 012	7.3	100.0	74
2020/2021	—	2026/2027	6.4	1 307	1 093	6.1	100.0	67
2020/2021	1 383.62	2023/2024	4.8	235	109	4.2	100.0	5
2020/2021	—	2024/2025	5.4	235	130	3.1	100.0	4
2020/2021	—	2025/2026	6.0	235	149	2.5	100.0	4
2020/2021	—	2026/2027	6.5	235	166	2.1	100.0	3
Total				551 770	388 675	47.9	100.0	186 163

(1) *All rights were valued using the Black-Scholes model and the following variables:*
Dividend yield 1.74% (2021: 0%)
Volatility[5] 41.44% (2021: 41.82%)
Ex-dividend share price R2 039.45 (2021: R1 400.00)

(2) *Executive employee turnover of 0% per annum (2021: 0%) was used to estimate the likelihood of vesting conditions realising. This is re-estimated in terms of IFRS 2 on an annual basis.*

(3) *As from the 2016 financial year: SARs are granted at a strike price equal to the 30-day weighted average share price up to and including the day before the resolution granting the respective SARs was passed. There is a fixed ratio between the number of SARs and share options granted.*

(4) *The REMCO approved changes to the performance conditions relating to SARs granted in 2017/2018. These performance conditions are that the HEPS growth must exceed the CPI plus the percentage growth in GDP plus 4%, and the attained ROE must outperform the ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The 2021 financial year was not considered when determining whether the performance measures were met.*

(5) *The expected price volatility is based on an annualised volatility.*

42. Derivative financial instruments

R'000	Fair values Assets	Fair values Liabilities
2022		
Interest rate swaps	—	18 577
Forward foreign exchange contracts	8 614	8 513
Forward currency swap contracts	5 972	6 758
Derivative financial instruments	**14 586**	**33 848**
2021		
Interest rate swaps	—	44 879
Forward foreign exchange contracts	18 048	12 587
Forward currency swap contracts	9 963	8 123
Derivative financial instruments	28 011	65 589

Interest rate swaps – designated as cash flow hedges

R'000	Notional	Fair values Assets	Fair values Liabilities
2022			
Interest rate swaps	500 000	—	18 577
Total interest rate swaps	**500 000**	**—**	**18 577**
2021			
Interest rate swaps	1 000 000	—	44 879
Total interest rate swaps	1 000 000	—	44 879

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2022					
Discounted swap cash flows	—	4 233	8 288	6 056	18 577
Total interest rate swaps	**—**	**4 233**	**8 288**	**6 056**	**18 577**
2021					
Discounted swap cash flows	2 450	8 794	13 342	20 293	44 879
Total interest rate swaps	2 450	8 794	13 342	20 293	44 879

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Year ended 28 February 2022

42. Derivative financial instruments continued

Forward foreign exchange contracts and forward currency swap contracts

R'000	Notional Foreign	Notional R	Fair values Assets	Fair values Liabilities
2022				
Forward foreign exchange contracts – US dollar	47 245	737 783	4 096	5 912
Forward foreign exchange contracts – euro	23 026	405 396	3 914	1 798
Forward foreign exchange contracts – pound sterling	2 784	58 586	206	485
Forward foreign exchange contracts – other	93 090	32 730	398	318
Total forward foreign exchange contracts		1 234 495	8 614	8 513
Forward currency swap contracts – US dollar	39 100	607 491	4 341	3 691
Forward currency swap contracts – euro	18 231	320 129	1 420	3 056
Forward currency swap contracts – pound sterling	1 399	29 046	180	11
Forward currency swap contracts – other	15 747	4 025	31	—
Total forward currency swap contracts		960 691	5 972	6 758
Derivative financial instruments		2 195 186	14 586	15 271
2021				
Forward foreign exchange contracts – US dollar	61 039	865 019	12 215	8 682
Forward foreign exchange contracts – euro	21 235	382 813	5 551	3 040
Forward foreign exchange contracts – pound sterling	1 656	30 267	170	613
Forward foreign exchange contracts – other	4 254	23 776	112	252
Total forward foreign exchange contracts		1 301 875	18 048	12 587
Forward currency swap contracts – US dollar	36 650	555 095	7 413	5 354
Forward currency swap contracts – euro	11 730	217 446	2 346	2 547
Forward currency swap contracts – pound sterling	1 600	33 321	204	222
Total forward currency swap contracts		805 862	9 963	8 123
Derivative financial instruments		2 107 737	28 011	20 710

R'000	2022	2021
Derivative asset		
Current portion	14 586	28 011
Non-current portion	—	—
Total foreign currency exchange contracts and swap contracts	14 586	28 011
Derivative liability		
Current portion	15 268	20 710
Non-current portion	3	—
Total foreign currency exchange contracts and swap contracts	15 271	20 710

Forward foreign exchange contracts

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions, and were entered into to match corresponding expected future transactions.

Gains and losses recognised in comprehensive income (note 33.6) on swap agreements will be continuously released to the income statement in line with the interest expense movement on the underlying hedged items.

The forecast cash flows presented above show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates. The hedged items comprise variable-rate bonds and negotiable instruments detailed in note 17. To ensure hedge effectiveness, the variable-rate cash flows on the hedged items are matched with variable-rate interest rate swap cash flows (hedging instruments) by entering into swaps where amounts, interest rates and maturities of the swaps exactly match the hedged items.

As at 28 February 2022, the fixed interest rates were 7.5% (2021: between 7.12% and 7.5%) and the floating rates were based on the forecast 3-month JIBAR as at 28 February 2022.

The fair value adjustment transferred to the income statement amounted to R22.8 million (2021: R47 million) and is included in interest expense. In 2021 and 2022, there were no transactions for which cash flow hedge accounting had to be discontinued due to highly probable cash flow no longer expected to occur.

43. Losses due to the destruction of assets in the civil unrest

Civil unrest occurred in the KwaZulu-Natal and Gauteng provinces of South Africa during the latter part of July 2021, resulting in the destruction of equipment, cash losses and additional operating expenses that had to be incurred to continue branch operations in these provinces. The group had short-term insurance cover to reduce the risks of civil unrest from Sasria SOC Limited.

Cash losses of R39.7 million incurred were recognised in operating expenses. Compensation received from Sasria SOC Limited for the losses amounted to R37.5 million and was recognised in other income.

The destruction of the equipment resulted in the derecognition of the assets as it was not probable that future economic benefits from the destructed equipment would flow to the group. A loss of R57.9 million was recognised in other expenses. Compensation received from Sasria SOC Limited for the destruction of the equipment, at replacement value, amounted to R198.3 million and was recognised in other income. No impairment losses in terms of IAS 36 *Impairment of Assets* were recognised in the income statement.

Compensation of R13.9 million was received for additional operating expenses that were incurred as a result of the civil unrest which amounted to R9 million.

The civil unrest had no impact on the ECL that was recognised for loans and advances in terms of IFRS 9 *Financial Instruments*.

Notes to the financial statements continued

Year ended 28 February 2022

44. Transfer of shareholding in cell captives to Capitec Ins Proprietary Limited

Capitec Bank Limited transferred its shareholding in the insurance cell captive arrangements with Centriq Life Insurance Company Limited and Guardrisk Life Limited to Capitec Ins Proprietary Limited, as recommended by the PA, as it is considered good governance for the insurance operations of the group to be held outside of the banking operations to keep the risk, capital management and regulation of the banking and insurance operations separate.

The cell captive arrangements allowed Capitec Bank Limited to purchase non-convertible preference shares in the registered insurance companies, namely Centriq Life Insurance Company Limited and Guardrisk Life Limited, which undertake the professional insurance management of the cell, including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions were governed by the shareholders' agreement.

Capitec Ins Proprietary Limited obtained the shareholding in the cells at their carrying amounts of R1 223 million effective 31 March 2021. Capitec Bank Limited transferred the investments at their carrying amounts as the bank was exempted from section 3A(1) of the General Code of Conduct for Authorised Financial Services Providers and Representatives. The exemption to transfer the interests at their carrying amounts was granted to Capitec Bank Limited by the Deputy Commissioner of the Financial Sector Conduct Authority as the interests were transferred to a company within the group.

Capitec Ins Proprietary Limited as the new shareholder of the cells participates in the operating results of the cells as an attribution of profit. Due to the nature of the insurance activities conducted, insurance activities are considered to be a separate operating segment. Refer to note 32 in the notes to the financial statements for the segmental report.

Capitec Bank Holdings Limited will hold the investment in Capitec Ins Proprietary Limited. Capitec Bank Limited declared and paid a dividend of R108 million, equal to the capital that the bank had previously invested in the cells, to Capitec Bank Holdings Limited, to enable the company to capitalise Capitec Ins Proprietary Limited. Capitec Bank Limited retains sufficient capital, which comprises shareholders' equity, to fund the strategic objectives of the group, provide an adequate return for shareholders and benefits for other various stakeholders as part of the bank's overall capital management objectives. The dividend was not intended to be a return of the invested capital of Capitec Bank Holdings Limited.

Capitec Bank Limited provides loan funding to Capitec Bank Holdings Limited as the company's holding company as the need would arise in the normal course of business. Capitec Bank Limited provided loan funding of R1 115 million to Capitec Bank Holdings Limited to enable the company to provide loan funding of R1 115 million to Capitec Ins Proprietary Limited as its wholly-owned subsidiary. The loan funding was provided to Capitec Ins Proprietary Limited to enable the company to pay Capitec Bank Limited for the interests in the cell captives purchased.

Capitec Bank Holdings Limited is, as part of conducting the business of the group, required to provide financial assistance to group companies as part of its operations in the form of loan funding or general financial assistance as contemplated in section 45 of the Companies Act.

45. Events after the reporting period

There have been no material changes in the affairs or financial position of the group since the statement of financial position date.

Statutory information

	2022 Shares held Number	2022 Shareholding %	2021 Shares held Number	2021 Shareholding %
Shareholders holding more than 5% of the company's ordinary shares				
Shareholder				
Kalander Sekuriteit Proprietary Limited (previously Limietberg Sekuriteit Proprietary Limited)	**6 471 146**	**5.57**	9 797 063	8.47
Government Employees Pension Fund	**15 766 131**	**13.58**	14 759 567	12.76
Lebashe Investment Group Proprietary Limited	**8 513 264**	**7.33**	8 409 802	7.27
B-BBEE shareholding				
Shareholder				
Lebashe Investment Group Proprietary Limited (Petratouch)	**5 386 297**	**4.64**	5 284 735	4.57
K2017134938 (SOUTH AFRICA) Proprietary Limited	**3 126 967**	**2.69**	3 125 067	2.70
CB Employee Holdings Proprietary Limited	**235 763**	**0.20**	235 763	0.20
NST Motjuwadi	**9 850**	**0.01**	11 847	0.01
NS Mashiya (director)	**15 774**	**0.01**	15 856	0.01
Inzindaba Ezinhle Employee Share Scheme(4)	**429 007**	**0.37**	–	–
Regiments Capital Proprietary Limited(1)	**–**	**–**	252 370	0.22
Reikemetse Investments Proprietary Limited(1)	**–**	**–**	8 223	0.01
Matarofusion Proprietary Limited(1)	**–**	**–**	7 845	0.01
Marcytouch Proprietary Limited(1)	**–**	**–**	106 889	0.09
Ergold Property No 8 CC(1)	**–**	**–**	161 713	0.14
Total B-BBEE shareholding	**9 203 728**	**7.92**	9 210 308	7.96
Shareholding by executive management(2)				
Shareholder				
W de Bruyn	**95 338**	**0.08**	89 782	0.08
KR Kumbier	**7 543**	**0.01**	6 754	0.01
HAJ Lourens	**502 384**	**0.43**	500 000	0.43
F Viviers(3)	**12 750**	**0.01**	10 064	0.01
Total executive management shareholding	**618 015**	**0.53**	606 600	0.53

(1) *These shares are no longer considered for B-BBEE ownership purposes.*

(2) *Executive directors' shareholdings are presented in the related party transaction note.*

(3) *Mr F Viviers has 2 loans in the total amount of R2.8 million as at 28 February 2022 in respect of which 5 206 Capitec Bank Holdings shares are held as security. The loans have a term of 6 years and 6 months and must be settled by 27 and 31 December 2022, respectively.*

(4) *Shares with a 5-year trade restriction. Refer to note 39.2. A total of 91% of the shares were awarded to employees that meet B-BBEE requirements.*

Analysis of shareholders holding ordinary shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	45 338	94.94	3 412 294	2.94
1 001 – 10 000	1 741	3.65	5 355 297	4.61
10 001 – 100 000	534	1.12	16 481 844	14.20
100 001 and over	139	0.29	90 850 408	78.25
Total shareholding	**47 752**	**100.00**	**116 099 843**	**100.00**

Shareholder spread

Public shareholders	**37 189**	**77.88**	**84 160 982**	**72.49**
Holdings less than 5%	37 188	77.88	68 394 851	58.91
Holdings of 5% or more	1	—	15 766 131	13.58
Non-public shareholders excluding directors and their associates	**10 532**	**22.05**	**10 070 006**	**8.67**
Holdings of 5% or less	10 530	22.05	1 556 742	1.34
Trustees of the Capitec Bank Holdings Share Trust	1	—	180 124	0.16
Trustees of the Capitec Bank Group Employee Empowerment Trust	1	—	235 763	0.20
Prescribed officers of the issuer	4	0.01	618 015	0.53
Holdings of senior managers under restricted share plan	89	0.19	49 988	0.04
Inzindaba Ezinhle Employee Share Scheme	10 435	21.85	472 852	0.41
Holdings of 5% or more	2	—	8 513 264	7.33
Lebashe Investment Group Proprietary Limited	2	—	8 513 264	7.33
Directors (refer to page 253 for detail)	**31**	**0.07**	**21 868 855**	**18.84**
Directors of the company or any subsidiaries	3	0.01	19 427	0.02
Associates of directors of the company or any of its subsidiaries	28	0.06	21 849 428	18.82
Total shareholding	**47 752**	**100.00**	**116 099 843**	**100.00**

Analysis of shareholders holding non-redeemable, non-cumulative, non-participating preference shares

	Number of shareholders	% of total	Number of shares	% of interest
1 – 1 000	2 304	94.81	80 626	14.22
1 001 – 10 000	118	4.86	344 298	60.74
10 001 – 100 000	8	0.33	141 940	25.04
Total preference shares held	**2 430**	**100.00**	**566 864**	**100.00**

Shareholder spread

Public shareholders	**2 430**	**100.00**	**566 864**	**100.00**
Holdings less than 5%	2 429	99.96	536 864	94.71
Holdings 5% and more	1	0.04	30 000	5.29
Non-public shareholders	**—**	**—**	**—**	**—**
There are no non-public shareholders or directors or their associates that hold preference shares	—	—	—	—
Total preference shares held	**2 430**	**100.00**	**566 864**	**100.00**

Abbreviations and acronyms

AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
AT1	Additional tier 1
ATM	Automated teller machine
Banks Act	Banks Act, Act 94 of 1990
BANKSETA	Banking Sector Education and Training Authority
BASA	Banking Association South Africa
B-BBEE	Broad-based black economic empowerment
BCBS	Basel Committee on Banking Supervision
BCC	Business bank credit committee
BER	Bureau of Economic Research
Capitec	Capitec Bank Holdings Limited
Capitec Bank	Capitec Bank Limited
Capitec Ins	Capitec Ins. Proprietary Limited
CAPM	Capital asset pricing model
CAR	Capital adequacy ratio
CBCC	Capitec business credit committee
CC	Credit committee
CCF	Credit conversion factors
CEO	Chief executive officer
CET1	Common equity tier 1
CFO	Chief financial officer
CGU	Cash-generating unit
CIS	Collective investment schemes
CLI	Credit life insurance
CLR	Credit loss recovery
CNR	Coin and note recyclers
CODM	Chief operating decision-maker
Companies Act	Companies Act of South Africa, Act 71 of 2008
COVID-19	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
CPI	Consumer Price Index
Cream Finance	Cream Finance Holdings Limited
CRM	Credit risk mitigation
CSI	Corporate social investment
DAC	Directors' affairs committee
Data Steerco	Data steering committee
DCF	Discounted cash flow
DEFRA	UK Department for Environment, Food and Rural Affairs
Deloitte	Deloitte & Touche
DMTN	Domestic medium-term note
DNR	Dual note recycler
D-SIB	Domestic systemically important bank
EAD	Exposure at default
ECL	Expected credit loss
EDC	External debt collector
EMS	Economic and management sciences
ERM	Enterprise risk management
ESG	Environmental, social and governance
EXCO	Executive management committee
FSCA	Financial Sector Conduct Authority
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
GHG	Greenhouse gas
GIBS	Gordon institute of Business Science
HEPS	Headline earnings per share
HR	Human resources
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	Incurred but not yet reported
IBOR	Interbank offered rates
ICAAP	Internal capital adequacy assessment process
ICR	Idiosyncratic capital requirement
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
Income Tax Act	Income Tax Act, Act 58 of 1962
IoDSA	Institute of Directors South Africa
IRBA Code	Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors
ISF	Information Security Forum
ISMS	Information security management system
ISO	International Organisation for Standardisation
IT	Information technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange Limited
JSE IRC	The Johannesburg Stock Exchange's Interest Rate and Currency market
kg	kilogramme
King IV™	King IV Report on Corporate Governance™ for South Africa, 2016
KPI	Key performance indicator
KRI	Key risk indicator

LCR	Liquidity coverage ratio
LGD	Loss given default
LTI	Long-term incentive
Mercantile	Mercantile Bank Limited (name changed to Mer Pastcomp Limited in January 2021)
Moody's	Moody's Investors Services Inc.
MOS	Management operating system
MSR	Minimum shareholding requirements
MTSC	Modelling technical subcommittee
MWh	Megawatt hour
NCA	National Credit Act, Act 34 of 2005
NCR	National Credit Regulator
NGO	Non-governmental organisation
NSFR	Net stable funding ratio
PA	Prudential Authority
PD	Probability of default
POPIA	Protection of Personal Information Act, Act 4 of 2013
POS	Point-of-sale
Primary banking client	When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries
PwC	PricewaterhouseCoopers Inc.
QR	Quick response
Quality client	Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3-month period
RCC	Retail bank credit committee
RCDR	Retail call deposit limit ratio
RCMC	Risk and capital management committee
RDARR	Risk data aggregation and risk reporting
REMCO	Human resources and remuneration committee
Remote banking	Remote banking refers to both banking app and USSD transactions
RISCO	Risk committee
ROE	Return on equity
RSP	Restricted share plan
RWA	Risk-weighted assets
S&P	Standard & Poor's
SABRIC	South African Banking Risk Information Centre
SAICA	South African Institute of Chartered Accountants
SAP	Standard of Actuarial Practice
SARA	South African Reward Association
SARB	South African Reserve Bank
SARs	Share appreciation rights
SBBI	Stocks, bonds, bills and inflation
SESCO	Social, ethics and sustainability committee
SENS	Stock Exchange News Service
SICR	Significant increase in credit risk
SIFI	Systemically important financial institution
SME	Small and medium-sized enterprise (not enterprises)
SPPI	Solely payments of principal and interest
STI	Short-term incentive
T1	Tier 1
T2	Tier 2
TCF	Treat clients fairly
tCO_2e	Tonnes of carbon dioxide equivalent
TGP	Total guaranteed pay
the group	Capitec Bank Holdings Limited and subsidiaries
TR	Total remuneration
TREC	Thursday Retail bank executive credit meeting
UN SDGs	United Nations Sustainable Development Goals
USSD	Unstructured Supplementary Service Data
VAT	Value added tax

Contact information

Capitec Bank Holdings Limited

Registration number 1999/025903/06
JSE code CPI
ISIN ZAE000035861

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

YM Mouton (Ms)

Registered address

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Postal address

PO Box 12451, Die Boord, Stellenbosch, 7613

Website

www.capitecbank.co.za

Shareholders' calendar

Financial year-end	28 February 2022
Profit announcement	12 April 2022
Integrated annual report	12 April 2022
AGM	27 May 2022
Interim report	September 2022

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