Audited summary consolidated financial statements

for the year ended 28 February 2023

building the future



CAPITEC

Capitec Bank Holdings Limited

(Capitec or the group or the company)

highlights

Performance

Headline earnings
R9.7 billion

Per share
8 420 cents

Full year dividend
4 200 cents

Growth
+15%

Clients

Active clients
20.1 million

Savings clients
7.6 million

Credit clients
1.3 million

Digital clients
11.4 million

Live Better clients
13.4 million

We gave back to clients

Savings and Live Better rewards
>R800 million

We gave back to society

Financial education, supplier and enterprise development
R177 million

We invested in the future

R1.4 billion

- Rebuilt and launched Capitec Business
- Expanded value-added services
- Started our own insurance business
- Built new technology platforms
- Launched Capitec Connect



Key performance indicators

		2023	2022	% change[1] 2023/2022
Profitability				
Interest income on lending	R'm	**15 799**	13 247	19
Interest income on investments and other financial instruments	R'm	**5 400**	4 207	28
Total interest income	R'm	**21 199**	17 454	21
Net loan fee income	R'm	**1 079**	951	13
Net credit life insurance income	R'm	**1 889**	1 540	23
Total lending, investment and insurance income less loan fee expense	R'm	**24 167**	19 945	21
Interest expense	R'm	**(6 993)**	(4 838)	45
Net lending, investment and insurance income	R'm	**17 174**	15 107	14
Net transaction and commission income	R'm	**11 461**	10 515	9
Net foreign currency income	R'm	**162**	144	13
Funeral plan income	R'm	**1 431**	906	58
Other income[2]	R'm	**79**	290	(73)
Income from operations	R'm	**30 307**	26 962	12
Credit impairments	R'm	**(6 329)**	(3 508)	80
Net income	R'm	**23 978**	23 454	2
Operating expenses	R'm	**(11 877)**	(12 555)	(5)
Share of net profit of associates and joint ventures	R'm	**98**	36	>100
Operating profit before tax	R'm	**12 199**	10 935	12
Income tax expense	R'm	**(2 492)**	(2 408)	3
Profit after tax	R'm	**9 707**	8 527	14
Preference dividend	R'm	**(4)**	(3)	33
Discount on repurchase of preference shares	R'm	**—**	(1)	
Earnings attributable to ordinary shareholders[3]				
Basic	R'm	**9 703**	8 523	14
Headline	R'm	**9 709**	8 440	15
Net transaction and commission, net foreign currency and funeral plan income to net income	%	**54**	49	
Net transaction and commission, net foreign currency and funeral plan income to operating expenses	%	**110**	92	
Cost-to-income ratio	%	**39**	47	
Return on ordinary shareholders' equity	%	**26**	26	
Earnings per share				
Attributable	cents	**8 415**	7 371	14
Headline	cents	**8 420**	7 300	15
Number of shares for calculation	'000	**115 309**	115 627	
Diluted attributable	cents	**8 392**	7 360	14
Diluted headline	cents	**8 397**	7 289	15
Number of shares for calculation	'000	**115 617**	115 800	
Dividends per ordinary share				
Interim	cents	**1 400**	1 200	17
Final	cents	**2 800**	2 440	15
Total	cents	**4 200**	3 640	15
Number of shares for calculation	'000	**116 100**	116 100	
Dividend cover	times	**2.0**	2.0	
Special dividend	cents	**—**	1 500	

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

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

[3] Refer to the reconciliation of attributable earnings to headline earnings in the summary financial statements for detail regarding the difference between basic and headline earnings.

Key performance indicators continued

		2023	2022	% change[1] 2023/2022
Assets				
Net loans and advances	R'm	**78 168**	66 549	17
Cash and financial investments[2]	R'm	**95 965**	97 901	(2)
Other[3]	R'm	**17 668**	13 493	31
Total assets	R'm	**191 801**	177 943	8
Liabilities				
Deposits and wholesale funding	R'm	**146 498**	134 458	9
Other	R'm	**6 218**	7 720	(19)
Total liabilities	R'm	**152 716**	142 178	7
Equity				
Shareholders' funds (total equity)	R'm	**39 085**	35 765	9
Capital adequacy ratio (CAR)	%	**34**	36	
Net asset value per ordinary share	cents	**33 760**	30 888	9
Number of shares for calculation	'000	**115 627**	115 627	
Share price	cents	**175 451**	207 435	(15)
Market capitalisation	R'm	**203 699**	240 832	(15)
Number of shares in issue per the shareholders' register	'000	**116 100**	116 100	
Operations				
Branches		**860**	853	1
Employees		**15 451**	14 758	5
Active clients (including POS merchants)[4]	'000	**20 105**	18 104	11
ATMs, DNRs and CNRs[5]		**7 898**	7 178	10
Capital expenditure	R'm	**1 163**	863	35
Credit sales				
Retail bank – value of total loans advanced	R'm	**52 928**	43 932	20
Value of credit card disbursements/drawdowns	R'm	**13 484**	11 011	22
Value of access facility disbursements/drawdowns	R'm	**19 779**	14 167	40
Value of term loans advanced (net of loan consolidations)	R'm	**19 665**	18 754	5
Business bank – value of total loans advanced	R'm	**65 484**	53 903	21
Value of mortgage loans advanced	R'm	**2 585**	2 268	14
Value of business loans advanced	R'm	**3 043**	2 443	25
Value of overdraft disbursements/drawdowns[6]	R'm	**59 856**	49 192	22
Value of total loans advanced	R'm	**118 412**	97 835	21

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

(2) Cash, cash equivalents, money market funds, government bonds, term deposits and other financial investments.

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

(4) Point-of-sale merchants.

(5) Automated teller machines, dual note recyclers and coin and note recyclers.

(6) Overdraft disbursements/drawdowns are gross of repayments.

		2023	2022	% change[1] 2023/2022
Credit book				
Gross loans and advances	R'm	**97 815**	84 108	16
Retail bank	R'm	**82 297**	71 214	16
Stage 1	R'm	**50 320**	44 591	13
Stage 2	R'm	**13 518**	12 758	6
Stage 3	R'm	**18 459**	13 865	33
Business bank	R'm	**15 518**	12 894	20
Stage 1	R'm	**13 177**	10 706	23
Stage 2	R'm	**1 213**	1 287	(6)
Stage 3	R'm	**1 128**	901	25
Provision for credit impairments (expected credit losses (ECL))	R'm	**(19 647)**	(17 559)	12
Retail bank	R'm	**(18 806)**	(16 776)	12
Business bank	R'm	**(841)**	(783)	7
Net loans and advances	R'm	**78 168**	66 549	17
Retail bank	R'm	**63 491**	54 438	17
Business bank	R'm	**14 677**	12 111	21
Gross credit impairment charge on loans and advances	R'm	**7 041**	4 286	64
Bad debts recovered	R'm	**707**	818	(14)
Net credit impairment charge on loans and advances[2]	R'm	**6 334**	3 468	83
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)	%	**7.0**	4.4	
Total lending and insurance income (excluding investment income)[3]	R'm	**18 776**	15 756	19
Net credit impairment charge on loans and advances to total lending and insurance income (excluding investment income)[3]	%	**33.7**	22.0	
Deposits and wholesale funding				
Wholesale funding	R'm	**2 439**	2 060	18
Call savings	R'm	**96 252**	89 167	8
Fixed savings	R'm	**46 533**	41 928	11
Foreign currency deposits	R'm	**1 274**	1 303	(2)

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

[2] This charge is for loans and advances only. The income statement charge for the reporting period includes a credit of R4.3 million (February 2022: charge – R39.6 million) related to other financial assets.

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

Commentary[1]

Building the future

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

Economic challenges and tough times for the consumer

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

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

Understanding the impact on our clients

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

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

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

Our contribution to our clients, our people and society

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

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

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

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

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

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

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

Investment in the future

Our focus has always been on building the future. We therefore invested approximately R1.4 billion in strategic projects during the 2023 financial year. Strategic projects included the rebuilding and launching of Capitec Business, the formation of our own insurance business after being granted a long-term insurance licence, the launch of Capitec Connect, expansion of our value-added services, the introduction of new payment solutions, digital credit granting initiatives and the continuous improvement of our information technology (IT) systems. Of the total investment, approximately 70% was accounted for as operating expenses.

The Live Better rewards programme, which encourages clients to Bank Better, Save Better and Spend Better, gained significant traction during the year. As at 28 February 2023, we had 13.4 million Live Better participants. Our long-term strategy is to move clients away from cash transacting. The Live Better programme rewards clients who transact with their debit and credit cards instead of cash. The programme is also part of our strategy to attract high-quality, financially active clients.

To mitigate the impact of load shedding, we incurred R88 million to install lithium batteries for cash devices that previously had no alternative power solutions. Another R130 million will be invested during the next financial year to install batteries for the remaining devices.

Overview of financial results

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

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

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

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

Net lending, investment and insurance income

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

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

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

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

Net transaction and commission income

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

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

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

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

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

Funeral plan income

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

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

Credit impairment charge and loans and advances

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

Retail bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The split of the retail loan book by stage and category is reflected below.

R'm	Stage 1 12-month ECL	Stage 2 Lifetime ECL			Stage 3 Lifetime ECL				
	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[1]	Up to 1 month in arrears	2 and 3 months in arrears	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	Total
Balance as at 28 February 2023									
Gross loans and advances	50 320	9 803	1 951	1 764	2 202	1 917	1 915	12 425	82 297
Provision for credit impairments (ECL)[2]	(3 634)	(2 219)	(468)	(851)	(1 493)	(584)	(527)	(9 030)	(18 806)
Net loans and advances	46 686	7 584	1 483	913	709	1 333	1 388	3 395	63 491
ECL coverage (%)	7.2	22.6	24.0	48.2	67.8	30.5	27.5	72.7	22.9
% of gross loan book	62	12	2	2	3	2	2	15	100
Balance as at 28 February 2022									
Gross loans and advances	44 591	8 327	3 059	1 372	1 744	1 175	1 634	9 312	71 214
Provision for credit impairments (ECL)[2]	(4 826)	(1 771)	(647)	(673)	(1 206)	(346)	(455)	(6 852)	(16 776)
Net loans and advances	39 765	6 556	2 412	699	538	829	1 179	2 460	54 438
ECL coverage (%)	10.8	21.3	21.2	49.1	69.2	29.4	27.8	73.6	23.6
% of gross loan book	63	12	4	2	2	2	2	13	100

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

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

Business bank

Credit impairment charge

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

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

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

Indicates information that was audited.

Operating expenses

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

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

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

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

Capital and liquidity

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

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

Prospects

The Business bank rebranding to Capitec Business has commenced and 4 of the 5 sub-divisions have already been rebranded. Existing clients are currently being migrated onto our new platform and portal in anticipation of the full relaunch in the next few months. We have spent a significant amount of time, energy and resources to ensure Capitec Business is fully integrated into the group.

We have been issuing credit life and funeral plan policies through 2 separate cell captive structures for several years. During the financial year, we made strides towards achieving our vision of offering unique insurance solutions that reflect our fundamental principles. Capitec Life was awarded a life insurance licence in October 2022. The transfer of our existing credit life policies to Capitec Life has been initiated. The transaction is expected to be completed before the end of the 2024 financial year. Our existing cell captive arrangement, related to the sale of funeral plan policies, expires during the 2025 financial year and negotiations are underway regarding the way forward.

The value-added services and digital payment solutions that we introduced during the 2023 financial year are still in their infancy and present opportunities to expand our current market share of these transactions which are not yet representative of the power of our 20.1 million clients.

The availability of best-in-class technology is integral to our objective of providing our clients with an ecosystem of products and services that address their financial needs. Our migration to Amazon Web Services (AWS) is nearing completion. The data insights and efficiency that will be generated as a result of using AWS will enhance our understanding of our clients' needs.

In order to improve client engagement, we have entered into partnerships with leading global technology firms such as Salesforce, Airship and nCino. These partnerships will play a vital part in the execution of the group's objectives for the future. During the year, we introduced conversational banking and LivePerson. The platform is maturing rapidly and allows us to scale our skillsets to deliver exceptional client experiences and understand our clients better.

We will continue building the future in the coming financial year.

Changes in the board composition

On 30 June 2022, André du Plessis, chief financial officer (CFO), financial director and co-founder of the bank retired. We thank and pay tribute to André for his invaluable contribution to the group. Grant Hardy, who had been head: group financial services, was appointed as CFO and financial director effective 1 July 2022.

Nkosana Mashiya, executive: risk management, resigned effective 31 March 2023. We thank him for the pivotal role he played within the risk department during his tenure. An acting executive: risk management has been appointed while a replacement for Nkosana is recruited.

Credit ratings

In March 2023, S&P Global affirmed the South African Sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook. We have a global long-term rating of BB- and a short-term global rating of B. Our South African long-term national scale rating is zaAA and the short-term rating is zaA-1+.

Ordinary dividends

The directors resolved that a final gross dividend of 2 800 cents per ordinary share (2022: 2 440 cents) be declared on 18 April 2023, bringing the total dividend for the 2023 financial year to 4 200 cents per share (2022: 3 640 cents). There are 116 099 843 ordinary shares in issue and the full-year dividend coverage was maintained at 2.0 times.

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 2 240 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 9 May 2023
Trading *ex*-dividend commences	Wednesday, 10 May 2023
Record date	Friday, 12 May 2023
Payment date	Monday, 15 May 2023

Share certificates may not be dematerialised or rematerialised from Wednesday, 10 May 2023 to Friday, 12 May 2023, both days inclusive.

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

On behalf of the board



Santie Botha
Chairman



Gerrie Fourie
Chief executive officer (CEO)

Stellenbosch
18 April 2023

Summary consolidated statement of financial position

As at 28 February 2023

R'm	Audited February 2023	Audited February 2022
Assets		
Cash and cash equivalents	**31 014**	34 239
Financial assets at fair value through profit or loss (FVTPL)	**289**	—
Financial investments at amortised cost	**61 034**	62 940
Term deposit investments	**3 628**	722
Net loans and advances	**78 168**	66 549
Other receivables	**6 429**	3 285
Net insurance receivable	**1 509**	678
Derivative assets	**34**	15
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	**74**	73
Current income tax asset	**41**	—
Interest in associates and joint ventures	**600**	394
Property and equipment	**3 292**	3 022
Right-of-use assets	**1 821**	1 909
Intangible assets including goodwill	**1 436**	1 348
Deferred income tax asset	**2 432**	2 769
Total assets	**191 801**	177 943
Liabilities		
Derivative liabilities	**24**	34
Current income tax liability	**—**	302
Deposits	**144 059**	132 398
Wholesale funding	**2 439**	2 060
Other liabilities	**3 874**	4 747
Lease liabilities	**2 305**	2 425
Employee benefit liabilities	**15**	212
Total liabilities	**152 716**	142 178
Equity		
Capital and reserves		
Ordinary share capital and premium	**5 406**	5 649
Cash flow hedge reserve	**1**	(12)
Other reserves	**(25)**	(29)
Foreign currency translation reserve	**78**	31
Share option reserve	**516**	516
Retained earnings	**33 060**	29 559
Share capital and reserves attributable to ordinary shareholders	**39 036**	35 714
Preference share capital and premium	**49**	51
Total equity	**39 085**	35 765
Total equity and liabilities	**191 801**	177 943

Summary consolidated income statement

Year ended 28 February 2023

R'm	Audited February 2023	Audited February 2022
Lending, investment and insurance income	**24 176**	19 963
Interest income calculated using the effective interest rate	**20 783**	17 454
Interest income on financial assets at FVTPL	**416**	—
Loan fee income	**1 088**	969
Net insurance income	**1 889**	1 540
Lending and investment expenses	**(7 002)**	(4 856)
Interest expense	**(6 993)**	(4 838)
Loan fee expense	**(9)**	(18)
Net lending, investment and insurance income	**17 174**	15 107
Transaction fee and commission income[1]	**16 562**	14 533
Transaction fee and commission expense	**(5 101)**	(4 018)
Net transaction and commission income	**11 461**	10 515
Foreign currency income	**495**	497
Foreign currency expense	**(333)**	(353)
Net foreign currency income	**162**	144
Funeral plan income	**1 431**	906
Other income	**79**	290
Credit impairments	**(6 329)**	(3 508)
Net income	**23 978**	23 454
Operating expenses	**(11 877)**	(12 555)
Share of net profit of associates and joint ventures	**98**	36
Operating profit before tax	**12 199**	10 935
Income tax expense	**(2 492)**	(2 408)
Profit for the year	**9 707**	8 527
Earnings per share (cents)		
Basic	**8 415**	7 371
Diluted	**8 392**	7 360

[1] *Transaction fee income consists of: branch, cash and self-service transaction fees in the amount of R6.7 billion (2022: R5.7 billion), digital transaction fees in the amount of R2.3 billion (2022: R1.4 billion), monthly fees, debit orders and other transaction fees in the amount of R3.8 billion (2022: R4.3 billion), POS transaction fees in the amount of R2.1 billion (2022: R1.7 billion) and commission income in the amount of R1.7 billion (2022: R1.4 billion).*

Summary consolidated statement of other comprehensive income

Year ended 28 February 2023

R'm	Audited February 2023	Audited February 2022
Profit for the year	**9 707**	8 527
Other comprehensive income that may subsequently be reclassified to profit or loss	**60**	(2)
Cash flow hedge reserve recognised	**8**	1
Cash flow hedge reclassified to profit or loss	**10**	23
Income tax relating to cash flow hedge	**(5)**	(7)
Foreign currency translation reserve recognised	**47**	(19)
Other comprehensive income that will not subsequently be reclassified to profit or loss	**4**	7
Remeasurement of defined benefit obligation	**4**	1
Profit on remeasurement to fair value of financial assets (FVOCI)	**1**	7
Income tax thereon	**(1)**	(1)
Total comprehensive income for the year	**9 771**	8 532

Reconciliation of attributable earnings to headline earnings

Year ended 28 February 2023

R'm	Audited February 2023	Audited February 2022
Net profit after tax	**9 707**	8 527
Preference dividend	**(4)**	(3)
Discount on repurchase of preference shares	**—**	(1)
Net profit after tax attributable to ordinary shareholders	**9 703**	8 523
Non-headline items:		
Derecognition of equipment due to the civil unrest	**—**	42
Taxable loss	**—**	58
Income tax	**—**	(16)
Sasria SOC Limited insurance recoveries on property and equipment related to the civil unrest	**—**	(143)
Taxable profit	**—**	(198)
Income tax	**—**	55
Loss/(Profit) on disposal of property and equipment	**6**	(1)
Taxable loss	**4**	12
Income tax	**(1)**	(3)
Non-tax deductible loss/non-taxable (profit)	**3**	(10)
Loss on disposal of intangible assets	**—**	19
Taxable loss	**—**	27
Income tax	**—**	(8)
Headline earnings	**9 709**	8 440
Basic headline earnings per share (cents)	**8 420**	7 300
Diluted headline earnings per share (cents)	**8 397**	7 289

Summary consolidated statement of changes in equity

Year ended 28 February 2023

R'm	Ordinary share capital and premium	Preference share capital and premium	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Share option reserve	Retained earnings	Total
Balance as at 28 February 2021	5 649	56	50	(29)	(36)	—	24 225	29 915
Total comprehensive income for the year	—	—	(19)	17	7	—	8 527	8 532
Transactions with shareholders and directly recorded in equity	—	(5)	—	—	—	516	(3 193)	(2 682)
Ordinary dividend	—	—	—	—	—	—	(3 238)	(3 238)
Preference dividend	—	—	—	—	—	—	(3)	(3)
Employee share option scheme: value of employee services	—	—	—	—	—	—	54	54
Shares acquired for employee share options at cost	—	—	—	—	—	—	(69)	(69)
Proceeds on settlement of employee share options	—	—	—	—	—	—	56	56
Fair value of shares utilised for net settlement	—	—	—	—	—	—	(46)	(46)
Tax effect on share options	—	—	—	—	—	—	53	53
Preference shares repurchased	—	(5)	—	—	—	—	—	(5)
Izindaba Ezinhle Employee Share Scheme	—	—	—	—	—	516	—	516
Balance as at 28 February 2022	**5 649**	**51**	**31**	**(12)**	**(29)**	**516**	**29 559**	**35 765**
Total comprehensive income for the year	**—**	**—**	**47**	**13**	**4**	**—**	**9 707**	**9 771**
Transactions with shareholders and directly recorded in equity	**(243)**	**(2)**	**—**	**—**	**—**	**—**	**(6 206)**	**(6 451)**
Ordinary dividend	**—**	**—**	**—**	**—**	**—**	**—**	**(6 187)**	**(6 187)**
Preference dividend	**—**	**—**	**—**	**—**	**—**	**—**	**(4)**	**(4)**
Employee share option scheme: value of employee services	**—**	**—**	**—**	**—**	**—**	**—**	**165**	**165**
Shares acquired for employee share options at cost	**(16)**	**—**	**—**	**—**	**—**	**—**	**(157)**	**(173)**
Proceeds on settlement of employee share options	**—**	**—**	**—**	**—**	**—**	**—**	**79**	**79**
Fair value of shares utilised for net settlement	**—**	**—**	**—**	**—**	**—**	**—**	**(59)**	**(59)**
Tax effect on share options	**—**	**—**	**—**	**—**	**—**	**—**	**(42)**	**(42)**
Preference shares repurchased	**—**	**(2)**	**—**	**—**	**—**	**—**	**(1)**	**(3)**
Treasury shares	**(227)**	**—**	**—**	**—**	**—**	**—**	**—**	**(227)**
Balance as at 28 February 2023	**5 406**	**49**	**78**	**1**	**(25)**	**516**	**33 060**	**39 085**

Summary consolidated statement of cash flows

Year ended 28 February 2023

R'm	Audited February 2023	Audited February 2022
Cash flows from operating activities		
Cash flow from operations[1]	**(6 680)**	5 032
Income tax paid	**(2 546)**	(2 845)
Interest received[1]	**20 439**	16 681
Interest paid[1]	**(6 958)**	(4 853)
	4 255	14 015
Cash flows from investing activities		
Acquisition of property and equipment	**(934)**	(746)
Disposal of property and equipment	**17**	11
Acquisition of intangible assets	**(229)**	(117)
Investment in term deposit investments	**(3 650)**	(1 200)
Redemption of term deposit investments	**900**	800
Acquisition of financial investments at amortised cost	**(47 217)**	(63 671)
Redemption of financial investments at amortised cost	**49 653**	36 477
Redemption of financial assets at FVTPL	**—**	2 960
Decrease in short-term money market investments	**—**	12
Acquisition of financial investments at FVOCI	**—**	(2)
Interest acquired in associates and joint ventures	**(62)**	—
Insurance recovery – civil unrest	**—**	198
	(1 522)	(25 278)
Cash flows from financing activities		
Dividends paid	**(6 189)**	(3 238)
Preference shares repurchased	**(3)**	(5)
Issue of institutional bonds and other funding	**750**	750
Redemption of institutional bonds and other funding	**—**	(1 000)
Payment of lease liabilities	**(370)**	(320)
Shares acquired for settlement of employee share options	**(111)**	(17)
Participants' contribution on settlement of options	**34**	21
Treasury shares repurchased	**(121)**	—
	(6 010)	(3 809)
Effect of exchange rate changes on cash and cash equivalents	**52**	3
Net decrease in cash and cash equivalents	**(3 225)**	(15 069)
Cash and cash equivalents at the beginning of the year	**34 240**	49 309
Cash and cash equivalents at the end of the year[2]	**31 015**	34 240

[1] *Interest received and interest paid were previously disclosed in the cash flow from operations line and then disaggregated in the related note. Comparatives have been updated for this more granular presentation.*

[2] *Cash and cash equivalents before deduction of provision for impairments (ECL).*

Notes to the summary consolidated financial statements

Year ended 28 February 2023

1. Basis of preparation

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

The accounting policies applied in the preparation of the 2023 consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those applied in the 2022 consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the summary consolidated financial statements, did not change compared to the prior financial year.

In calculating the ECL for the year, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historical data is used to project ECL.

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

IFRS 17 *Insurance Contracts* will be applied to the cell captive arrangements where credit life insurance is offered and to funeral insurance from 1 March 2023. The group is still finalising the required transition adjustments.

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

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

These summary consolidated financial statements for the year ended 28 February 2023 have been audited jointly by PricewaterhouseCoopers Inc. and Deloitte & Touche, who expressed an unmodified opinion thereon. The joint auditors also expressed an unmodified opinion on the annual financial statements from which these summary consolidated financial statements were derived. The audited financial statements and the auditors' report thereon are available for inspection at the company's registered office and on the company's website at **www.capitecbank.co.za**.

The preparation of the audited summary consolidated financial statements was supervised by the CFO, Grant Hardy CA(SA).

2. Net loans and advances

Retail bank

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

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

(2) For agreements that contain both a drawn and undrawn component where the group cannot separately identify the ECL on the undrawn component, the ECL on the undrawn component is recognised with the ECL on the loan component. To the extent that the ECLs exceed the gross carrying amount of the loans at a client level, the excess is recognised as a provision in other liabilities in the statement of financial position. The loss allowance on the undrawn loan commitments of clients that have no outstanding balances is also recognised as a provision in other liabilities.

Business bank

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

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

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

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

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

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

3. Commitments and contingent liabilities

R'm	Audited February 2023	Audited February 2022
Capital commitments – approved by the board		
Contracted for:		
Property and equipment[1]	**672**	180
Intangible assets	**3**	27
Not contracted for:		
Property and equipment	**1 034**	786
Intangible assets	**206**	247
Total capital commitments	**1 915**	1 240
Loan commitments – gross of loss allowances[2]	**16 104**	11 483
Retail bank	**15 800**	11 301
Business bank	**304**	182
Guarantees – Business bank	**771**	689
Letters of credit	**32**	12
Total loan commitments, guarantees and letters of credit	**16 907**	12 184
Contingent liabilities		
VAT	**—**	27

[1] *Included in this amount is property amounting to R400 million.*

[2] *For agreements that contain both a drawn and undrawn component where the group cannot separately identify the ECL on the undrawn component, the ECL on the undrawn component is recognised with the ECL on the loan component. To the extent that the ECLs exceed the gross carrying amount of the loans at a client level, the excess is recognised as a provision in other liabilities in the statement of financial position. The loss allowance on the undrawn loan commitments of clients that have no outstanding balances are also recognised as a provision in other liabilities.*

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

Determination of fair values and valuation process

Fair values are market-based, calculated first with reference to observable inputs available in the market, then less observable and finally unobservable inputs only where observable inputs or less observable inputs are unavailable.

Fair values are calculated consistently with the unit of account used for the measurement of the asset or liability in the statement of financial position and income statement and assume an orderly market on a going concern basis.

The group's finance department performs the valuations of financial assets and financial liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques is an outcome of internal discussion and deliberation between members of the finance team who have modelling and valuation experience. Changes in fair values are analysed at each reporting date.

Hierarchy of fair value of financial instruments

The hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's assessment of what inputs would likely be from the perspective of the market. The group first considers relevant and observable market inputs where these are available. Unobservable inputs are used in the absence of observable inputs. The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

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

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

R'm	Audited February 2023	Audited February 2022	Classification	Hierarchy of valuation technique
Financial assets				
Cash and cash equivalents	**31 015**	34 239	At amortised cost	Level 2
Financial assets at FVTPL	**289**	—	At FVTPL	Level 2
Term deposit investments	**3 628**	722	At amortised cost	Level 2
Financial investments at amortised cost	**60 390**	62 797	At amortised cost	Level 2
Financial assets – equity instruments at FVOCI	**74**	73	At FVOCI	Level 3
Net loans and advances – Retail	**64 426**	55 989	At amortised cost	Level 3
Net loans and advances – Business	**7 027**	5 565	At amortised cost	Level 3
Net loans and advances – Mortgage	**7 877**	6 547	At amortised cost	Level 3
Other receivables	**4 558**	2 648	At amortised cost	Level 2
Funeral plan income receivable	**1 626**	478	At FVTPL	Level 3
Derivative assets	**34**	15	At FVTPL	Level 2
Financial liabilities				
Deposits and bonds	**146 185**	136 011	At amortised cost	Level 2
Derivative liabilities	**24**	34	At FVTPL	Level 2
Trade and other payables	**2 447**	2 218	At amortised cost	Level 2

5. Segment information

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision-maker (CODM) in order to allocate resources to the segments and to assess their performance. The group executive management committee, headed by the CEO, has been identified as the CODM, which is responsible for assessing the performance of and allocating resources to the segments.

The CODM identified 3 operating segments within the South African economic environment - Retail bank, Business bank and the Insurance business. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on the operating results of the cell captives as a measure of profitability. The insurance products are conventional long-term insurance products written on insurance licences which are not controlled by the group. Due to the nature of the insurance products being conventional long-term insurance products, they are not further analysed by class. The group acquired an insurance licence for life products during the 2023 financial year but is not yet utilising the licence.

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

The CODM regularly reviews the operating results of the Retail bank, Business bank and Insurance business for which discrete financial information is made available on a monthly basis and against which performance is measured and resources are allocated across the segments.

5. Segment information continued

Within the segments are a number of products and services from which the group derives its revenue. These include:

Retail bank

- Transactional banking services
- Loan products that are granted to Retail bank clients. There are 3 different loan products granted, namely term loans, credit cards and access facilities
- Flexible, fixed and tax-free savings
- Value-added services including enabling clients to purchase prepaid mobile network services, electricity, national lottery tickets and vouchers and the ability to pay bills on the banking application
- Capitec Connect, a mobile virtual network operator using the mobile network infrastructure of Cell C, offering its own products and services.

Business bank

- Loan products that are granted to Business bank clients. There are 5 different loan products granted, namely term loans, mortgage loans, overdrafts, instalment sales and leases and credit cards
- Call and notice deposits
- Treasury products that comprise foreign exchange spot trades and foreign exchange forward contracts.

Insurance

The cell captive arrangements enable the group to provide long-term insurance products to Retail bank clients. The group participates in the operating results of the cells in the form of an attribution of profit.

The following long-term insurance products are provided to Retail bank clients:

- Credit insurance, underwritten by Guardrisk Life Limited, is a policy that provides cover for the settlement of debt in the event of death, permanent disability, temporary disability or retrenchment
- The Capitec funeral plan, underwritten by Centriq Life Insurance Company Limited, is a policy that provides cover for funeral costs.

Capitec Ins Proprietary Limited is the shareholder of the cells and participates in the operating results.

The revenue from external parties and all other items of income, expenses, profits and losses reported in the segment report are measured in a manner consistent with those in the income statement.

R'm	February 2023 Retail bank	Business bank	Insurance	Total	February 2022 Retail bank	Business bank	Insurance	Total
Lending, investment and insurance income	**20 905**	**1 824**	**1 896**	**24 176**	17 526	1 189	1 540	19 963
Interest income on lending calculated using the effective interest rate[3]	**14 382**	**1 417**	**—**	**15 799**	12 320	927	—	13 247
Interest income on investments calculated using the effective interest rate[1][2][3]	**5 031**	**402**	**—**	**4 984**	4 247	252	—	4 207
Interest income on financial assets at FVTPL	**409**	**—**	**7**	**416**	—	—	—	—
Loan fee income	**1 083**	**5**	**—**	**1 088**	959	10	—	969
Net insurance income	**—**	**—**	**1 889**	**1 889**	—	—	1 540	1 540
Lending and investment expenses	**(6 630)**	**(821)**	**—**	**(7 002)**	(4 642)	(506)	—	(4 856)
Interest expense[1][2]	**(6 621)**	**(821)**	**—**	**(6 993)**	(4 624)	(506)	—	(4 838)
Loan fee expense	**(9)**	**—**	**—**	**(9)**	(18)	—	—	(18)
Net lending, investment and insurance income	**14 275**	**1 003**	**1 896**	**17 174**	12 884	683	1 540	15 107
Transaction fee and commission income[3]	**15 235**	**1 442**	**—**	**16 562**	13 188	1 345	—	14 533
Branch, cash and self-service transactions	**6 723**	**11**	**—**	**6 734**	5 664	11	—	5 675
Digital transactions	**2 184**	**67**	**—**	**2 251**	1 377	41	—	1 418
Monthly fees, debit orders and other transactions[1]	**3 388**	**481**	**—**	**3 809**	3 833	465	—	4 298
POS transactions[1]	**2 005**	**150**	**—**	**2 100**	1 549	131	—	1 680
Commission income	**935**	**733**	**—**	**1 668**	765	697	—	1 462
Transaction fee and commission expense[3]	**(4 509)**	**(647)**	**—**	**(5 101)**	(3 402)	(616)	—	(4 018)
Branch, cash and self-service transactions	**(2 860)**	**—**	**—**	**(2 860)**	(2 438)	—	—	(2 438)
Digital transactions	**(286)**	**(29)**	**—**	**(315)**	(243)	(10)	—	(253)
Monthly fees, debit orders and other transactions	**(936)**	**(265)**	**—**	**(1 201)**	(506)	(315)	—	(821)
POS transactions[1]	**(376)**	**(353)**	**—**	**(674)**	(145)	(291)	—	(436)
Commission expense	**(51)**	**—**	**—**	**(51)**	(70)	—	—	(70)
Net transaction and commission income	**10 726**	**795**	**—**	**11 461**	9 786	729	—	10 515
Foreign currency income	**—**	**495**	**—**	**495**	—	497	—	497
Foreign currency expense	**—**	**(333)**	**—**	**(333)**	—	(353)	—	(353)
Net foreign currency income	**—**	**162**	**—**	**162**	—	144	—	144
Funeral plan income	**—**	**—**	**1 431**	**1 431**	—	—	906	906
Other income	**50**	**29**	**—**	**79**	265	25	—	290
Credit impairments	**(6 121)**	**(208)**	**—**	**(6 329)**	(3 332)	(176)	—	(3 508)
Net income	**18 930**	**1 781**	**3 327**	**23 978**	19 603	1 405	2 446	23 454
Operating expenses[1][3]	**(3 258)**	**(245)**	**(10)**	**(3 453)**	(2 763)	(195)	—	(2 958)
IT expenses[3]	**(968)**	**(71)**	**(6)**	**(1 045)**	(860)	(95)	—	(955)
Employee costs[3]	**(5 358)**	**(851)**	**(19)**	**(6 228)**	(6 635)	(783)	—	(7 418)
Depreciation	**(939)**	**(71)**	**—**	**(1 010)**	(928)	(73)	—	(1 001)
Amortisation	**(114)**	**(13)**	**—**	**(127)**	(180)	(29)	—	(209)
Amortisation of intangible assets – core deposits and client relationships[1]	**—**	**—**	**—**	**(14)**	—	—	—	(14)
Share of net profit of associates and joint ventures	**98**	**—**	**—**	**98**	36	—	—	36
Operating profit before tax[1]	**8 391**	**530**	**3 292**	**12 199**	8 273	230	2 446	10 935
Income tax expense	**(2 362)**	**(141)**	**7**	**(2 496)**	(2 356)	(56)	—	(2 412)
Tax on amortisation of intangible assets[1]	**—**	**—**	**—**	**4**	—	—	—	4
Profit for the year[1]	**6 029**	**389**	**3 299**	**9 707**	5 917	174	2 446	8 527

Refer to the footnotes on page 24.

5. Segment information continued

R'm	February 2023 Retail bank	Business bank	Insurance	Total	February 2022 Retail bank	Business bank	Insurance	Total
Assets								
Net loans and advances	**63 491**	**14 677**	**—**	**78 168**	54 438	12 111	—	66 549
Other[2]	**107 143**	**7 932**	**3 288**	**112 732**	106 365	5 768	1 156	110 479
Acquisition of Mercantile	**—**	**—**	**—**	**900**	—	—	—	915
Goodwill[1]	**—**	**—**	**—**	**849**	—	—	—	849
Intangible asset – core deposit intangible[1]	**—**	**—**	**—**	**42**	—	—	—	54
Intangible asset – client relationships[1]	**—**	**—**	**—**	**9**	—	—	—	12
Total assets[1][2]	**170 634**	**22 609**	**3 288**	**191 800**	160 803	17 879	1 156	177 943

[1] *Consolidation entries not included in either segment.*

[2] *The Retail bank and Business bank assets include an amount of R5.6 billion (2022: R2.8 billion) in investments that eliminates against liabilities at group level. Interest on the investments amounted to R382 million (2022: R291 million) and is disclosed in Retail bank interest expense and Business bank interest on investments.*

[3] *The following line items, interest income, transaction fee and commission income and expenses, as well as operating expenses have been further disaggregated in line with the JSE's report on the proactive monitoring of financial statements recommendations.*

6. The group's implementation of IFRS 17 *Insurance Contracts*

Background

The International Accounting Standards Board issued IFRS 17 *Insurance Contracts* to replace IFRS 4 *Insurance Contracts*, an interim standard that permitted entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements such as generally accepted accounting principles and variations of those requirements, subject to limited improvements and specified disclosures.

The group offers Capitec funeral plan and credit life insurance to clients through contractual cell captive arrangements with registered insurance companies (cell captive insurer) that transfer certain risks and rewards associated with the insurance activities to the group.

In terms of IFRS 17, the cell captive arrangements are considered to have transferred significant insurance risk to the group due to the contractual requirement imposed on the group to maintain the capital requirements of the cells. The cell captive arrangements thereby create an in-substance insurance contract relationship between the group and the cell insurers, with the group acting as a reinsurer to the cell captive arrangements. The group will therefore apply IFRS 17 to the cell captive arrangements for the annual reporting period beginning on 1 March 2023. Any adjustments to the carrying amounts of insurance contracts will be recognised as an adjustment to the retained earnings on 1 March 2022, and the group will restate 2023 comparatives when reporting on 2024 financial periods.

Status

The implementation of IFRS 17 is governed by the group's audit committee and a steering committee chaired by the group's CFO. The group has made satisfactory progress on the activities required for the adoption of IFRS 17. Group policy and methodology decisions, key judgements and significant estimations and assumptions relating to products have mostly been finalised. Significant progress has been made in the development of best estimate, risk adjustment and contractual service margin measurement and reporting models. These models are undergoing final review and testing and will be put into production thereafter.

The following activities will be completed in the 2024 financial year:

- Transition values
- Comparative results and disclosures
- Ongoing combined assurance reviews, including external audit.

Classification and measurement of insurance contracts

All insurance contracts in the group are classified as insurance contracts without direct participation features, and the General Measurement Model (GMM) will be applied. At initial recognition, entities measure insurance contracts at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin under the GMM. The fulfilment cash flows are remeasured on a current basis during each reporting period. The unearned profit (contractual service margin) is recognised as insurance revenue over the coverage period. Insurance service expenses are recognised in the income statement based on the services provided during the period.

Transition

In terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IFRS 17 should be applied retrospectively to insurance contracts unless it is 'impracticable' to do so. This retrospective approach is referred to as the full retrospective approach (FRA). Where it is impracticable to apply the FRA, the modified retrospective approach (MRA) or fair value approach permits several simplifications. The group is working closely with the cell captive insurers to finalise its transition results, including an assessment of which approach will be applied. This includes performing the required impracticability assessments. Progress to date indicates that the MRA will be used for most historical cohorts where it is impracticable to use the FRA. The quantum of the transition impact has not been reported at this time as it is subject to due processes and review by the group's control and governance processes as agreed with the cell captive insurers.

Impact of changes in tax legislation in South Africa

The 2022 Taxation Laws Amendment Act, Act 20 of 2022, was substantively enacted on 22 December 2022 and promulgated during January 2023. Amendments to section 28 of the Income Tax Act were included to provide appropriate legislation for the implementation of IFRS 17 and to ensure that the legislation is aligned to the terminology and principles of IFRS 17. The phasing-in period for the income tax impact of any transition amount will be 6 years. The impact of adoption of these changes will be accounted for in the 2024 financial statements when IFRS 17 is adopted.

Independent auditors' report on the summary consolidated financial statements

To the Shareholders of Capitec Bank Holdings Limited

Opinion

The summary consolidated financial statements of Capitec Bank Holdings Limited, set out on pages 12 to 25 of the preliminary report titled "*Audited summary consolidated financial statements for the year ended 28 February 2023*", which comprise the summary consolidated statement of financial position as at 28 February 2023, the summary consolidated income statement and the summary consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Capitec Bank Holdings Limited for the year ended 28 February 2023.

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

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

Other matter

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

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 18 April 2023. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

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

Auditors' responsibility

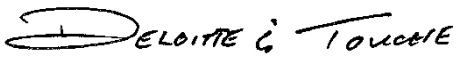
Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810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



PricewaterhouseCoopers Inc.
Director: Michael Meyer
Registered Auditor

Johannesburg
4 Lisbon Lane, Waterfall City, South Africa

18 April 2023



Deloitte & Touche
Per Partner: Darren Shipp
Registered Auditor

Johannesburg
5 Magwa Crescent, Waterfall City, South Africa

18 April 2023

Statutory and contact information

Capitec Bank Holdings Limited

Registration number: 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI
ISIN code: ZAE000035861
JSE preference share code: CPIP
ISIN code: ZAE000083838

Directors

SL Botha (chairman), GM Fourie (CEO)[1], AP du Plessis (CFO)[1] (retired on 30 June 2022), SA du Plessis, CH Fernandez, GR Hardy (CFO)[1] (appointed on 1 July 2022), MS du Pré le Roux, V Mahlangu, TE Mashilwane, NS Mashiya (executive: risk management)[1] (resigned effective 31 March 2023), DP Meintjes, PJ Mouton, CA Otto, JP Verster

[1] *Executive*

Company secretary and registered office

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Transfer secretary

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