Unaudited financial results
for the 6 months ended 31 August 2023

Resilience, growth and future focus

2024

CAPITEC

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

highlights

Performance

Headline earnings

+9% to

R4.7 billion

Interim dividend

+9% to

1 530 cents

Return on ordinary shareholders' equity

24%

Clients

Active clients

21.1 million

Fully banked clients[1]

7.5 million

Clients using digital transacting

11.7 million

Live Better clients

16.9 million

Transacting

Transaction income including value-added services

+24% to

R6.9 billion

(1) *Fully banked clients have average monthly inflows of R3 500 into their accounts and meet 2 or more of the electronic outflow requirements, good banking behaviour or product usage requirements.*

Key performance indicators

		6 months ended August 2023	2022 restated[2]	August 2023/2022 restated[1][2] %	Year ended February 2023 restated[2]
Profitability					
Interest income on lending	R'm	**8 985**	7 432	21	15 799
Interest income on investments and other financial instruments	R'm	**3 552**	2 502	42	5 400
Interest expense	R'm	**(4 519)**	(3 071)	47	(6 993)
Net interest income	R'm	**8 018**	6 863	17	14 206
Net loan fee income	R'm	**594**	522	14	1 079
Net transaction and commission income	R'm	**6 913**	5 559	24	11 461
Net foreign currency income	R'm	**82**	78	5	162
Funeral plan	R'm	**636**	401	59	1 018
Credit life	R'm	**912**	760	20	1 667
Net insurance result	R'm	**1 548**	1 161	33	2 685
Other income	R'm	**77**	52	48	158
Net non-interest income	R'm	**9 214**	7 372	25	15 545
Income from operations	R'm	**17 232**	14 235	21	29 751
Credit impairments	R'm	**(4 761)**	(2 939)	62	(6 329)
Net income	R'm	**12 471**	11 296	10	23 422
Operating expenses	R'm	**(6 607)**	(5 777)	14	(11 877)
Share of net profit of associates and joint ventures	R'm	**29**	32	(9)	98
Operating profit before tax	R'm	**5 893**	5 551	6	11 643
Income tax expense	R'm	**(1 197)**	(1 226)	(2)	(2 492)
Profit after tax	R'm	**4 696**	4 325	9	9 151
Preference dividend	R'm	**(2)**	(2)	—	(4)
Discount on repurchase of preference shares	R'm	**(1)**	—		—
Earnings attributable to ordinary shareholders[3]					
Basic	R'm	**4 693**	4 323	9	9 147
Headline	R'm	**4 697**	4 322	9	9 153
Net transaction and commission, net foreign currency and funeral plan income to income from operations	%	**44**	42		42
Net transaction and commission, net foreign currency and funeral plan income to operating expenses	%	**115**	105		106
Cost-to-income ratio	%	**38**	41		40
Return on ordinary shareholders' equity	%	**24**	25		25
Earnings per share					
Attributable	cents	**4 068**	3 739	9	7 933
Headline	cents	**4 072**	3 738	9	7 938
Number of shares for calculation	'000	**115 352**	115 627	—	115 309
Diluted attributable	cents	**4 062**	3 729	9	7 911
Diluted headline	cents	**4 066**	3 728	9	7 917
Number of shares for calculation	'000	**115 526**	115 934	—	115 617
Dividends per ordinary share					
Interim	cents	**1 530**	1 400	9	1 400
Final	cents				2 800
Total	cents	**1 530**	1 400	9	4 200
Number of shares for calculation	'000	**116 100**	116 100	—	116 100
Dividend cover	times	**2.6**	2.7		1.9

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

[2] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2 to the condensed consolidated financial statements.*

[3] *Refer to the reconciliation of attributable earnings to headline earnings in the condensed consolidated financial statements for details regarding the difference between basic and headline earnings.*

		6 months ended August 2023	2022 restated[2]	August 2023/2022 restated[1][2] %	Year ended February 2023 restated[2]
Assets					
Net loans and advances	R'm	78 965	72 887	8	78 168
Cash and financial investments[3]	R'm	102 005	94 031	8	95 965
Other	R'm	19 533	14 841	32	16 503
Total assets	R'm	200 503	181 759	10	190 636
Liabilities					
Deposits and wholesale funding	R'm	154 201	140 723	10	146 498
Other	R'm	6 949	6 223	12	6 218
Total liabilities	R'm	161 150	146 946	10	152 716
Equity					
Shareholders' funds (total equity)	R'm	39 353	34 813	13	37 920
Capital adequacy ratio (CAR)	%	37	35		34
Net asset value per ordinary share	cents	33 995	30 064	13	32 753
Number of shares for calculation	'000	115 627	115 627	—	115 627
Share price	cents	158 470	204 355	(22)	175 451
Market capitalisation	R'm	183 984	237 256	(22)	203 699
Number of shares in issue per the shareholders' register	'000	116 100	116 100	—	116 100
Operations					
Branches		866	856	1	860
Employees		15 425	15 295	1	15 451
Active clients (including POS merchants)[4]	'000	21 096	19 029	11	20 105
ATMs, DNRs and CNRs[5]		8 044	7 436	8	7 898
Capital expenditure	R'm	567	582	(3)	1 163
Credit sales					
Retail bank – value of total loans advanced	R'm	24 225	26 528	(9)	52 928
Value of credit card disbursements/drawdowns	R'm	7 963	6 299	26	13 484
Value of access facility disbursements/drawdowns	R'm	7 325	9 852	(26)	19 779
Value of term loans advanced (net of loan consolidations)	R'm	8 937	10 377	(14)	19 665
Business bank – value of total loans advanced	R'm	37 353	32 293	16	65 484
Value of mortgage loans advanced	R'm	1 283	1 281	—	2 585
Value of business loans advanced	R'm	1 903	1 376	38	3 043
Value of overdraft disbursements/drawdowns[6]	R'm	34 167	29 636	15	59 856
Value of total loans advanced	R'm	61 578	58 821	5	118 412

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

[2] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2 to the condensed consolidated financial statements.*

[3] *Cash, cash equivalents, money market funds, government bonds, term deposits and other financial investments.*

[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.*

Key performance indicators continued

		6 months ended August 2023	2022 restated[2]	August 2023/2022 restated[1][2] %	Year ended February 2023 restated[2]
Credit book					
Gross loans and advances	R'm	**100 877**	91 935	10	97 815
Retail bank	R'm	**83 775**	77 905	8	82 297
Stage 1	R'm	**48 486**	49 450	(2)	50 320
Stage 2	R'm	**13 954**	12 380	13	13 518
Stage 3	R'm	**21 335**	16 075	33	18 459
Business bank	R'm	**17 102**	14 030	22	15 518
Stage 1	R'm	**14 443**	11 935	21	13 177
Stage 2	R'm	**1 326**	1 132	17	1 213
Stage 3	R'm	**1 333**	963	38	1 128
Provision for credit impairments (expected credit losses (ECL))	R'm	**(21 912)**	(19 048)	15	(19 647)
Retail bank	R'm	**(20 882)**	(18 299)	14	(18 806)
Business bank	R'm	**(1 030)**	(749)	38	(841)
Net loans and advances	R'm	**78 965**	72 887	8	78 168
Retail bank	R'm	**62 893**	59 606	6	63 491
Business bank	R'm	**16 072**	13 281	21	14 677
Gross credit impairment charge on loans and advances	R'm	**5 097**	3 302	54	7 041
Bad debts recovered	R'm	**331**	368	(10)	707
Net credit impairment charge on loans and advances[3]	R'm	**4 766**	2 934	62	6 334
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)	%	**4.8**	3.3		7.0
Total lending and credit life insurance income[4]	R'm	**10 491**	8 714	20	18 545
Net credit impairment charge on loans and advances to total lending and credit life insurance income[4]	%	**45.4**	33.7		34.2
Deposits and wholesale funding					
Wholesale funding	R'm	**2 369**	1 817	30	2 439
Call savings	R'm	**100 512**	91 653	10	96 252
Fixed savings	R'm	**49 735**	46 080	8	46 533
Foreign currency deposits	R'm	**1 585**	1 173	35	1 274

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

(2) *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts*. Refer to note 2 to the condensed consolidated financial statements.*

(3) *This charge is for loans and advances only. The income statement charge for the reporting period includes a release of R4.3 million (August 2022: an expense of R5.7 million; February 2023: a release of R4.3 million) related to other financial assets.*

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

Commentary[1]

Resilience, growth and future focus

Financial performance overview

Headline earnings grew by 9% to R4.7 billion from the restated headline earnings of R4.3 billion for the comparative period[2]. Tough economic conditions continued to put pressure on South African consumers and businesses. Pre-provision operating profit[3] grew by 26% which was partially offset by an increase in the credit impairment charge.

Net interest income comprised 47% (August 2022: 48%) of income from operations and grew to R8.0 billion (August 2022: R6.9 billion). Margins on the loan book and the investment portfolio benefitted from the 275 basis points increase in the repo rate since August 2022 and net interest-bearing assets grew by 2%. The interest expense grew by 47% and was impacted by the 10% increase in total deposits and funding.

The net transaction and commission income was 40% of income from operations (August 2022: 39%) and grew by 24% to R6.9 billion (August 2022: R5.6 billion). The performance was driven by our consistent investment in innovation and an increase of 11% in the number of active clients which led to an 18% increase in retail transaction volumes.

Net insurance income contributed 9% (August 2022: 8%) to income from operations and increased by 33% to R1.5 billion from the restated comparative period result of R1.2 billion. Funeral insurance performed exceptionally well and reported a 59% increase in income, while credit life insurance income grew by 20%.

Total operating expenses increased by 14% to R6.6 billion (August 2022: R5.8 billion). The above-inflationary growth in operating expenditure reflects our commitment to continued investment in innovation for the future. Information technology (IT) and our employee expenses comprised 66% (August 2022: 61%) of the group's total operating expenses. Despite the cost increase, the cost-to-income ratio improved from 41% to 38%.

The net credit impairment charge grew by 62% to R4.8 billion. The higher charge was largely due to an increase in the migration of balances into stages 2 and 3 of the retail loan book. The migration was driven by the impact of economic constraints on clients' ability to remain up to date with their loan instalments. Consequently, the group's overall credit loss ratio increased to 4.8% (August 2022: 3.3%).

The group's capital position is strong with a common equity tier 1 ratio of 36% and a CAR of 37%. Our capital and liquidity ratios are still well above the regulatory and board-approved requirements. The return on ordinary shareholders' equity of 24% (August 2022: 25%) reflects the group's solid performance in the face of tough economic conditions.

Resilience

To build resilience, the expansion of income streams through non-interest income is a long-standing strategic objective for Capitec. We continued to focus on the diversification of our income streams throughout the COVID-19 pandemic, the subsequent geopolitical issues and the recent tough macroeconomic conditions. We prioritised continued innovation in digitalisation, the building of Capitec Business, obtaining our own insurance licence, launching Capitec Connect (our prepaid mobile offering) and expanding our payment services. It is this continued focus that has driven the growth in non-interest income and allowed us to grow earnings in a tough macroeconomic environment.

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

[2] *Shareholders were informed in a Stock Exchange News Service (SENS) announcement published on 4 July 2023 that the group had implemented the IFRS 17* Insurance Contracts *standard on 1 March 2023. IFRS 17 replaced IFRS 4* Insurance Contracts *for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and in-substance reinsurance contracts issued through its cell captive arrangements. The implementation of IFRS 17 necessitated the restatement of the group earnings and headline earnings per share for the 6 months ended 31 August 2022. Any adjustments to the carrying amounts of assets or liabilities prior to the 2023 financial year were recognised as an adjustment to retained earnings on 1 March 2022. The 2023 financial year comparatives were restated. Refer to note 2 to the condensed consolidated financial statements for details of the restatements.*

[3] *Income from operations less operating expenses.*

Growth

Our strategy to grow non-interest income was largely accomplished through digitalisation and the addition of new value-added services (VAS) and payment methods. Digital payment solutions that we have implemented include Samsung Pay, Google Pay, Apple Pay and Garmin Pay digital wallets, Capitec Pay and PayShap.

Capitec Pay, which allows clients to make fast, safe and card-free payments online, was launched in March 2023. A total of 52 million payments have been processed. The group successfully launched PayShap, a low-cost, immediate, digital payments solution, on 7 August 2023 and as at 31 August 2023, we had 301 033 main-banked registrations which represented a market share of 43%. Our participation in this industry rapid payments programme will contribute to our long-term strategy.

Our VAS initially allowed clients to send cash and buy airtime and electricity. VAS has since been expanded to include bill payments as well as the purchase of national lottery tickets and vouchers. The new products, which were only launched during the first half of the 2023 financial year, added an additional R274 million to net transaction income and 66 million in transactions to total transaction volumes for the reporting period. Income from VAS makes up 16% of net transaction and commission income (August 2022: 13%).

Capitec Connect was launched during September 2022 and as at the end of August 2023, more than1.3 million SIM cards had been issued.

We rebranded our business banking division to Capitec Business in May 2023, and we are onboarding existing clients onto the new systems using a phased approach. Remote onboarding of new clients has also been introduced.

We obtained our own long-term insurance licence in October 2022 and began underwriting our own credit life policies in May 2023. We had issued 248 224 policies by the end of August 2023. We have reaped the benefits of our investment in our own insurance team. Improvements made to our insurance products by this team contributed to the growth in policy sales and insurance income.

Non-lending income now comprises 44% of income from operations (August 2022: 42%) and provides the group with continued growth when lending income is impacted by a tough economic climate.

Our client acquisition and retention strategies have resulted in continued growth in active client numbers, and close to 1 million new active clients have joined Capitec during the past 6 months. We currently service 21 million active clients (August 2022: 19 million).

Future focus

We have evolved into a diversified financial services group and now offer personal banking, business banking, insurance, Capitec Connect, payment services and Live Better rewards. We remain future-focused to meet our clients' constantly growing needs and improve their financial lives. Continual investment in new products and services keeps us future-fit. Our deliberate and continuous investment during the reporting period was focused on data migration to the Amazon Web Services (AWS) cloud, best-in-class technologies and system stability. This investment amounted to R0.9 billion (August 2022: R0.6 billion) and provides the foundation from which to scale and grow each of our businesses in line with the Capitec fundamentals of simplicity, accessibility, affordability and personal experience. Our culture of innovation and client focus will continue to be at the forefront of everything that we do.

Retail bank and Insurance

The Retail bank and Insurance divisions' headline earnings comprised 95% (August 2022: 95%) of the group's total headline earnings and grew by 8% to R4.5 billion (August 2022: R4.1 billion).

Net interest income

The Retail bank's net interest income grew from R6.4 billion to R7.3 billion. Growth in Retail bank interest-bearing assets contributed to the increase. Retail bank net loans and advances grew by 6% to R62.9 billion (August 2022: R59.6 billion) and cash and financial investments grew by 8% to R101.6 billion (August 2022: R94.0 billion). The divisions' interest margin benefitted from the 275 basis points increase in the repo rate since August 2022 and the conservative approach that was followed in terms of passing through the interest rate increases to our depositors.

The Retail bank's interest income on lending increased by 17% to R8.0 billion (August 2022: R6.9 billion). The repo rate increases combined with a greater proportion of the Retail bank loan book being variable interest rate-linked resulted in the higher average yield. As at 31 August 2023, the term loan book, which is fixed interest rate-linked, comprised 59% (August 2022: 66%) of the Retail bank gross loans and advances. As at 31 August 2023, the stage 3 book comprised 25% (August 2022: 21%) of the Retail bank gross loans and advances. The migration of balances into stage 3 impacted the total Interest income on lending as the stage 3 interest derecognition increased by 47% to R1.2 billion (August 2022: R826 million).

Interest income on investments and other financial instruments grew by 42% from R1.1 billion to R3.6 billion (August 2022: R2.5 billion), underpinned by a higher average yield on the retail investment portfolio because of the higher interest rates. The average Retail bank investment portfolio remained stable year-on-year. The yield on the portfolio increased by slightly less than the yield on retail deposits as the instruments that we invest in take longer to reprice for the impact of the repo rate increases than deposits.

The interest expenses on deposits and wholesale funding increased by 45% to R4.2 billion (August 2022: R2.9 billion). The growth was driven by the 10% growth in the Retail bank's deposits and wholesale funding and repo rate increases. The impact of the repo rate increases on the deposit book was limited by the selective pass-through of the increases to our depositors as well as the change in our pricing tiers. Despite implementing these changes, we paid R2.3 billion in interest on transactional accounts.

Net transaction and commission income

The Retail bank's net transaction and commission income including VAS increased by 25% to R6.5 billion (August 2022: R5.2 billion). The growth was attributable to 18% growth in volumes, with VAS transactions adding a total of 503 million transactions to the retail transaction volume (August 2022: 411 million). Retail bank fee increases on 1 March 2023 were limited to transaction channels that do not align with the group's long-term strategy of moving clients towards digital transactions. Where transaction types cannot be scaled in a cost-efficient way, a portion of the additional costs were passed on to clients.

The Retail bank's active client growth of 11% to 20.9 million (August 2022: 18.9 million) contributed to the growth in transaction volumes. The growth in fully banked clients was in step with the growth in active clients, and these clients totalled 7.5 million at the end of August 2023 (August 2022: 6.7 million). During the past 6 months, fully banked clients have grown by 9% and they contributed 75% of transaction income for the period. Quality clients grew from 5.5 million to 6.1 million.

Fully banked clients is a more inclusive measure than the quality clients measure that we used during the 2023 financial year. A fully banked client has average monthly inflows of R3 500 into their account and meets 2 or more of the good banking behaviours or product usage requirements. These clients perform more transactions and contribute significantly higher monthly transaction income. The range of contributions is between 3 and 6 times more than other clients.

Retail clients using digital transacting increased by 8% to 11.7 million (August 2022: 10.8 million). Active banking app users grew to 10.2 million (August 2022: 7.8 million). Digital transaction volumes grew by 21% to 957 million. The banking app represents 83% of all digital transactions (August 2022: 65%). Transaction volumes on the banking app increased by 53% from 515 million to 789 million, largely driven by the launch of new products during the 2023 financial year.

Income from VAS, which includes Send Cash payments, prepaid purchases of electricity, data and airtime, national lottery ticket purchases, bill payments and vouchers grew by 56% to R1.1 billion (August 2022: R729 million). Send Cash income increased by 78% to R265 million (August 2022: R149 million). Bill payments, vouchers and national lottery ticket purchases added an additional R274 million to the income for the period ended August 2023 (August 2022: R8 million). This equated to nearly a quarter of the total net income and commission income generated from VAS.

Card payment transaction volumes increased by 28% to 1.1 billion (August 2022: 836 million). POS transactions comprised 92% of the volume, and card not present transactions comprised 8%. The growth in volumes was driven by our long-term strategy to move clients away from cash. Card payment income grew by 18% to R716 million (August 2022: R605 million). The current economic conditions and the switch from cash to card payments by our clients resulted in a decrease in the value of card payment transactions. Interchange income on card payments is calculated based on the value of the transaction. Currently, 68% of transactions have values of R200 or less. In the comparative period, the average value of a transaction was more than R250.

The Live Better programme rewards Retail bank clients for transacting with their debit and credit cards instead of cash. Qualifying participants earned R186 million (August 2022: R97 million) in cash backs (August 2022: R97 million). A total of 16.9 million clients are registered for the Live Better programme, and close to 1 million of these clients earned banking cash back rewards for moving away from cash transactions to the use of debit and credit cards. We were commended by Kantar Brands for the "Biggest impact on behaviour change in South Africa" in 2023.

Cash-related transaction volumes grew by 3% to 286 million (August 2022: 277 million). The muted growth aligns with our strategy of moving clients away from cash towards digital transactions. The installation of lithium batteries at our cash devices increased our device availability and as a result, we observed a decrease in the number of cash withdrawals at non-Capitec cash devices. The ratio of cash transactions to total transaction volumes decreased to 12% (August 2022: 14%). This is a further indication that the group is executing its long-term strategy to move clients away from cash-related transactions.

Net credit life insurance

The net credit life insurance income increased by 20% to R912 million (August 2022: R760 million). IFRS 17 requires that insurance contract fulfilment cash flows be measured at current rates. The after-tax impact of changes in interest rates on net credit life insurance income was a decrease of R9 million (August 2022: R24 million). Excluding the impact of changes in interest rates, the net credit insurance income was up by 17%.

The credit life insurance sum assured increased by 3% to R74.7 billion (August 2022: R72.4 billion). Total claims incurred increased by 1% to R445 million (August 2022: R439 million). The value of retrenchment claims incurred decreased by 8% to R232 million (August 2022: R252 million).

From May 2023, credit life insurance policies were underwritten by Capitec Life Limited (Capitec Life) on its own long-term insurance licence, with the in-force book in the cell captive on the Guardrisk licence being in run-off. As at 31 August 2023, we had 248 224 active policies on our own insurance licence. The process to transfer the policies currently underwritten on the Guardrisk licence to the Capitec Life licence has been initiated.

Funeral income

Funeral income increased by 59% to R636 million (August 2022: R401 million). The robust performance is attributable to the product's all-inclusive offering and affordability. The total funeral book increased from 2.0 million policies at the end of August 2022 to 2.4 million policies. As at 31 August 2023, 11.1 million (August 2022: 9.0 million) lives were covered by our funeral product.

New business volumes accounted for R42 million of the growth in funeral plan income. Changes in the interest rates used to discount contract fulfilment cash flows added R46 million to income. The investment portfolio held in the cell captive grew substantially during the period, and investment income represented R48 million of the growth in income. Profit recognised from policies sold prior to the 2023 financial year is lower than profit on policies sold in the 2023 financial year and the reporting period. The profit on the pre-2023 policies is lower due to high claims paid during the COVID-19 period, which reduced the remaining unearned profit for this tranche of business at the transition to IFRS 17. As new business replaces the pre-2023 policies, profit will initially increase more than the volume growth. This contributed a further R99 million to the growth in funeral plan income.

Premium collection rates remained stable at approximately 89% per month with no signs of deterioration, and the mortality experience was in line with the comparative period. The average claims ratio for the 6 months ended 31 August 2023 was 46% (August 2022: 44%).

Negotiations to transfer the cell captive policies currently underwritten on the Sanlam licence are ongoing. The agreement with Sanlam expires in November 2024.

IFRS 17 restatements

On 4 July 2023, the group published an IFRS 17 transitional report containing details regarding the restatements required at the transition to IFRS 17. The report can be accessed on Capitec's website at **https://www.capitecbank.co.za/globalassets/pages/investor-relations/ifrs-17-transitional-report.pdf.**

The estimated net impact on the annual financial statements of the group for the year ended 28 February 2023 was disclosed as a decrease of R1 250 million in retained income and a decrease of R711 million in profit for the 2023 financial year.

After this disclosure, a further adjustment was made to account for the impact of earning a net of tax return from the cell captives. The amended impact on retained earnings amounted to R1 165 million, and the impact on the profit for the 2023 financial year was amended to R556 million. Refer to note 2 to the condensed consolidated financial statements for details regarding the restatements.

Loans and advances and credit impairment charge

Retail bank's gross loans and advances increased by 8% to R83.8 billion (August 2022: R77.9 billion), and the provision for ECL grew from R18.3 billion to R20.9 billion. The total ECL coverage ratio increased to 24.9% (August 2022: 23.5%).

The Retail bank's credit impairment charge on loans and advances increased by 61% to R4.6 billion (August 2022: R2.8 billion). Consequently, the credit loss ratio increased to 5.5% (August 2022: 3.8%) which is significantly lower than the 8.1% at the height of the COVID-19 pandemic.

We closely monitor the impact of the South African economy on our clients. The higher inflation, higher interest rate environment and persistent load shedding eroded clients' disposable income during the reporting period. This resulted in increased migration into stages 2 and 3 of the retail loan book.

Credit granting criteria for all retail loan products, which had already been tightened during the 2023 financial year, were tightened further. Changes to the granting criteria during the reporting period included the discontinuation of short-term access facilities and cutbacks on clients who increased their instalments to income ratio by more than 30% during the past 6 months. The impact of the adjustments to granting criteria was to decrease loan and limit sales by 32%. We can adjust the term to maturity of our retail loan book more quickly than mortgage or commercial lenders because of the comparatively shorter term of our loan book. As a result, retail loan sales and disbursements decreased by 9% to R24.2 billion (August 2022: R26.5 billion).

The table below reflects the Retail bank's loan sales and disbursements by product.

	6 months ended		
R'm	**August 2023**	**February 2023**	**August 2022**
Term loans	**8 937**	9 288	10 377
Access facilities	**7 325**	9 927	9 852
Credit cards	**7 963**	7 185	6 299
Total	**24 225**	26 400	26 528

The tightening of access facility criteria resulted in a significant decrease in the new access facility limits granted to R3.8 billion (August 2022: R10.5 billion). In addition, access facility limits were cut by more than R3.0 billion, and access facility disbursements decreased to R7.3 billion from R9.9 billion. The lower-risk credit card disbursements grew from R6.3 billion to R8.0 billion. Term loan sales decreased by 14% from R10.4 billion to R8.9 billion.

To assist our retail clients with repayments, we focused on designing treatments that provide the lowest cost of credit. We attempted to engage with our clients before they went into debt review. We also engaged with debt counsellors to ensure that they act in the best interests of our clients and improve their business processes. Our digital expansion continued with the implementation of interactive email and SMS client engagements and treatments. We launched a WhatsApp interaction option for arrears clients and will shortly launch treatments via the Capitec app. We also increased our capacity to service clients through internal mobility, recruitment and the realignment of priorities. Along with training focusing on offering clients the most appropriate treatments, the measures taken gave our clients options to manage the economic strain they are experiencing.

The actions taken to tighten credit granting criteria and optimise collections are already reflecting positively in the retail loan book. The percentage of distressed clients 3 months after granting has returned to pre-COVID-19 levels and the migration to stages 2 and 3 has decreased. During the first quarter of the 2024 financial year, roll-forwards from stage 1 to stage 2 and stage 3, and roll-forwards from stage 2 to stage 3 amounted to R2.8 billion across all products. During the second quarter, the migration reduced to R1.8 billion. The overall retail credit impairment charge for the first quarter amounted to R2.4 billion compared to R2.2 billion during the second quarter.

The Retail bank's gross credit impairment charge is analysed in the table below.

	6 months ended		
R'm	August 2023	February 2023	August 2022
New loan sales net of settlements	**1 048**	2 347	1 713
Existing book	**5 098**	2 201	2 321
Credit impairment charge	**5 177**	3 611	3 115
Forward-looking information macroeconomic provision	**(79)**	(1 410)	(794)
Stage 3 interest derecognition	**(1 215)**	(932)	(826)
Gross credit impairment charge	**4 931**	3 616	3 208

The charge on new loan sales net of settlements decreased from R1.7 billion to R1.0 billion. The charge on the term loan and access facility products decreased by R391 million and R332 million, respectively. The substantial decrease in this charge reflects the extent of the tightening of the loan granting criteria.

The charge related to the existing gross loans and advances reflects the persistent impact of the economic conditions and grew to R5.2 billion compared to R3.1 billion. Balances migrating into stages 2 and 3 increased and, in line with the 6 months ended February 2023, we observed a further increase in clients going into debt review, rolling into arrears and default, and balances being rescheduled.

In June 2023, the inflation rate of 5.4% dipped below the upper limit of the government's target range for the first time since May 2022, and reduced further to 4.7% in July 2023. The South African real gross domestic product expanded by 0.6% in the second quarter (April to June) of 2023, and the repo rate has remained at 8.25% since the end of May 2023, improving the outlook on interest rates. The forward-looking macroeconomic provision model reacted to the latest economic indicators by releasing R79 million of the R753 million forward-looking macroeconomic provision for ECL held as at the end of February 2023. As at 31 August 2023, the forward-looking macroeconomic provision for ECL was R674 million (August 2022: R2.2 billion).

The latest forward-looking macroeconomic scenarios were obtained from the Bureau for Economic Research in August 2023. The baseline scenario's average indicators for the next 12 months are in line with those of the same scenario at the end of February 2023. This reflects the expectation that the economic conditions should not worsen during the coming 12 months although no significant improvement is expected. The average indicators for the remainder of the 5-year forecasting period show that improvement in the economic environment is expected during this period. The implication for our business is that clients are not expected to be subject to the same worsening financial constraints that they have experienced during the past 4 years but that the recovery from these constraints has been delayed beyond initial expectations.

The stage 3 interest derecognition increased from R826 million to R1.2 billion. The increase was largely driven by the deterioration in the gross loans and advances which resulted in the stage 3 book increasing by 33% to R21.3 billion (August 2022: R16.1 billion).

The division's bad debts recovered (excluding debt sales) consisted primarily of recoveries on loans written off before the implementation of IFRS 9 in March 2018 (August 2023: R160 million; August 2022: R286 million). After the implementation of IFRS 9, balances remain on the loan book for longer before being written off. Amounts that are recovered while handed over clients and clients in debt review are making payments reduce the loan book and do not form part of bad debts recovered.

The table below splits Retail bank's recoveries between bad debts recovered on written-off amounts and the amounts allocated to the balances of clients that were handed over or are in debt review and remain on the loan book.

	6 months ended		
R'm	August 2023	February 2023	August 2022
Allocated to the loan book	**906**	877	838
Allocated to bad debt recoveries	**240**	198	268
Total	**1 146**	1 075	1 106

The trend in the composition of the retail loan book by stage since August 2022 illustrates the incremental impact of the persistent macroeconomic conditions. The table below reflects this trend.

%	August 2023	February 2023	August 2022
Stage 1	**58**	62	63
Stage 2	**17**	15	16
Stage 3	**25**	23	21

The stage 3 retail loan book as a percentage of the total book grew from 21% at the end of August 2022 to 25% in August 2023. The growth, especially during the reporting period, was the consequence of an increased number of clients rolling into arrears and default, going into debt review and rescheduling their balances. The pullback in lending by Capitec and the lending industry resulted in an increase in arrears. This was a driver of the migration of balances into stage 3.

The more than 3 months in arrears, legal statuses and applied for debt review less than 6 months ago category (default book) increased by R2.0 billion during the past 6 months. The increase was largely driven by the term loan and access facility products which increased by R0.6 billion and R1.2 billion, respectively. Balances that rolled into debt review amounted to R2.2 billion (August 2022: R1.6 billion). Total debt review balances increased to R6.0 billion (August 2022: R5.0 billion).

The stage 1 retail loan book as a percentage of the total retail loan book decreased from 63% at the end of August 2022 to 58% in August 2023. The decrease was largely driven by the level of clients migrating into stages 2 and 3 but the lower loans sales and disbursements also affected the stage 1 book which decreased from R50.3 billion in February 2023 to R48.5 billion at the end of August 2023.

The coverage ratio on the overall retail loan book was 24.9% (February 2023: 22.9%; August 2022: 23.5%). The coverage ratio on the access facility book, which grew from R24.5 billion in February 2023 to R26.2 billion in August 2023 (August 2022: R19.8 billion), increased from 21.0% at the end of February 2023 to 24.6% at the end of August 2023 (August 2022: 20.9%). As the access facility product has matured, the coverage ratio has become more conservative. The coverage ratios on the term loans and credit card balances also increased between February 2023 and August 2023.

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

%	August 2023	February 2023	August 2022
Stage 1	**7.5**	7.2	9.9
Stage 2	**26.2**	26.2	24.8
Stage 3	**63.7**	63.0	64.4
Total	**24.9**	22.9	23.5

The decrease in the stage 1 coverage ratio compared to August 2022 is a result of the forward-looking macroeconomic information provision reducing as the expected migration into stages 2 and 3 occurred during the past year. The percentage increased slightly since February 2023 as the worse experience during the past 6 months impacted provision percentages.

The stage 2 retail loan book coverage ratio remained stable at 26.2% from the end of February 2023 to the end of August 2023. The loans subject to significant increases in credit risk (SICR) increased between August 2022 and 2023, particularly for the access facility product. The access facility is provided at 34.8% and the increased balances added R310 million to provisions for ECL. Balances up to 1 month in arrears decreased to R1.4 billion (February 2023: R1.8 billion; August 2022: R1.5 billion) as more balances migrated to stage 3.

The stage 3 retail loan book coverage ratio was 63.7% (February 2023: 63.0%; August 2022: 64.4%) which is still below the pre-COVID-19 levels. Despite the significant increase in the default book, the coverage ratio only increased from 72.7% in February 2023 to 73.1% (August 2022: 73.8%). Debt review balances, which carry lower provision percentages, comprised 37% of the default book (February 2023: 40%; August 2022: 40%), while handed over balances and balances with other legal statuses with higher provision percentages comprised 40% (February 2023: 35%; August 2022: 35%). The remaining 23% of the default book (February 2023: 25%; August 2022: 25%) was subject to collection action by the bank.

Refer to note 3 to the condensed consolidated financial statements for the analysis of the retail loans and advances by product.

The retail loan book is analysed by product, stage and category below.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL			Stage 3 Lifetime ECL				
R'm	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[1]	Up to 1 month in arrears	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 31 August 2023									
Gross loans and advances	**48 486**	**11 020**	**1 575**	**1 359**	**2 503**	**2 422**	**2 003**	**14 407**	**83 775**
Provision for credit impairments (ECL)[2]	**(3 644)**	**(2 617)**	**(355)**	**(678)**	**(1 740)**	**(766)**	**(554)**	**(10 528)**	**(20 882)**
Net loans and advances	**44 842**	**8 403**	**1 220**	**681**	**763**	**1 656**	**1 449**	**3 879**	**62 893**
ECL coverage (%)	**7.5**	**23.7**	**22.5**	**49.9**	**69.5**	**31.6**	**27.7**	**73.1**	**24.9**
% of gross loan book	**58**	**13**	**2**	**2**	**3**	**3**	**2**	**17**	**100**
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 31 August 2022									
Gross loans and advances	49 450	9 165	1 705	1 510	2 026	1 280	1 670	11 099	77 905
Provision for credit impairments (ECL)[2]	(4 884)	(1 929)	(390)	(751)	(1 385)	(362)	(412)	(8 186)	(18 299)
Net loans and advances	44 566	7 236	1 315	759	641	918	1 258	2 913	59 606
ECL coverage (%)	9.9	21.0	22.9	49.7	68.4	28.3	24.7	73.8	23.5
% of gross loan book	63	12	2	2	3	2	2	14	100

(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

The division's headline earnings increased by 20% to R242 million (August 2022: R201 million) and comprised 5% (August 2022: 5%) of the group's total headline earnings. The division benefitted from the increases in its average interest-bearing assets as well as the higher interest rate during the reporting period.

Since acquisition, the focus has been to design and build the world's best business bank. In the past 6 months, we have launched our new online banking platform and single Capitec app and have started migrating our existing clients onto these channels. To date, we have migrated over 23 500 existing clients and will be migrating the remainder of clients by the end of the year. The migration has provided a valuable opportunity to refine our systems and processes to ensure we deliver an excellent client experience.

We are also currently testing our remote onboarding solution which will allow clients to open a business account from the comfort of their own office or home. In August 2023, we opened a record number of 4 501 business accounts and, to date, we have opened 3 894 accounts digitally.

In addition to our new digital channels, we have replatformed our systems and moved our data onto the AWS cloud. We also implemented Salesforce (a customer relationship management solution) and nCino (a loan system). By implementing these leading technologies, we have provided a scalable platform on which Capitec Business will grow.

Net interest income

The division's net interest income grew from R435 million to R690 million. The 59% growth was due to the higher average interest-bearing assets and the increase in the division's net interest margin.

Interest income on lending increased by 62% to R991 million (August 2022: R612 million). The growth was attributable to the 22% growth in the gross loan book combined with the 275 basis points increase in the repo rate which resulted in a higher average yield on the loan book for the reporting period.

Interest income on investments and other financial instruments grew by R111 million from R160 million to R271 million. The growth was driven by the 13% increase in the overall average investment portfolio and the increase in the average yield.

Interest expense on deposits increased by 70% to R573 million (August 2022: R337 million). As at 31 August 2023, the Business bank deposits were R18.8 billion (August 2022: R17.6 billion).

Net transaction and commission income

The Business bank's net transaction and commission income increased by 5% to R419 million (August 2022: R399 million). The banking unit, where the total number of clients grew by 17%, experienced growth in monthly fees, POS purchases, realtime clearing and EFT interchange fees. The banking unit's growth was offset by a decrease in income from merchant services due to a change in the business model from renting to selling POS machines and a decrease in pricing.

Loans and advances and credit impairment charge

The Business bank's gross loans and advances increased by 22% to R17.1 billion (August 2022: R14.0 billion) and the provision for credit impairment (ECL) grew from R0.7 billion to R1.0 billion. The total ECL coverage ratio increased to 6.0% (August 2022: 5.3%). The Business bank's credit impairment charge increased by 83% to R165 million (August 2022: R90 million). The credit loss ratio was 1% compared to 0.6% for the comparative period.

The rental finance (instalment sales and leases) credit impairment charge amounted to R49 million (August 2022: R17 million). We saw strain in the rental finance loan book from the second half of the 2023 financial year due to the increases in the repo rate. This led to a pullback in granting during the reporting period resulting in a decrease in sales. The positive impact of the pullback is reflected in the charge for the second quarter of the reporting period which reduced to R21 million from R28 million in the first quarter.

The Business bank's credit impairment charge on mortgages and business loans (excluding rental loans) grew from R73 million to R116 million. The component of the charge relating to new loan sales net of settlements amounted to R41 million (August 2022: R30 million). There was a shift away from clients requiring mortgage loans to clients requiring working capital during the past 6 months. Business loans advanced and overdraft disbursements increased by 38% and 15%, to R1.5 billion and R34.2 billion, respectively. The balance on the overdraft book grew from R2.0 billion to R3.7 billion at the end of August 2023. The remainder of the overdraft disbursements were repaid during the reporting period. A charge of R75 million related to the migration of the book between stages.

An increase of 25% in the stage 3 Business bank loan book from R1.0 billion to R1.2 billion resulted in the stage 3 book comprising 8% of the division's loan book (excluding rental finance) at the end of August 2023 (August 2022: 7%). The exposures that rolled into stage 3 represented mostly clients that were on the watchlist that we have been monitoring closely since the COVID-19 pandemic period. The stage 3 coverage ratio (excluding rental loans) increased from 29% at the end of August 2022 to 39% at the end of August 2023. The increase in the ratio resulted from adjustments to the estimates of recoveries.

Refer to note 3 to the condensed consolidated financial statements for the breakdown of the Business bank loan book by product.

Operating expenses

Group operating expenses grew by 14% from R5.8 billion to R6.6 billion.

Employee benefits (including incentives) increased by R356 million to R3.5 billion (August 2022: R3.1 billion). The growth was attributable to the headcount that grew by 130 heads to 15 425 (August 2022: 15 295) and the impact of the average annual remuneration increases.

IT remains at the forefront of the group's overall long-term strategy. As such, the IT costs increased by 36% to R880 million (August 2022: R649 million) excluding any employee costs. The growth was driven by our focus on moving all our data to the cloud and increasing the stability of critical systems.

We are moving to the cloud gradually and expect that the process will be complete by 2026, with the majority of our systems completed by the first half of 2025. Thus far, we have migrated our banking app, the majority of the Business bank systems and 75% of our data to the AWS cloud. Before the end of the current financial year, our payment channels will be migrated. This will give us the capability to scale products to higher volumes more efficiently. It will also enable the closure of some of our data centres, thus saving costs.

We have also shifted our focus from developing our own systems to purchasing platforms that can be customised to our specifications. Examples of these platforms that have already been implemented are nCino and Salesforce. Our focus for the future will be on building an exceptional client experience with our technology platforms. The priority that we place on quality data and innovative solutions and the availability of the latest technology combined with the shortage of scarce IT skills in South Africa has also resulted in a reliance on external subcontractors to remain on track with our IT strategy.

We are the biggest digital bank in South Africa by number of clients and therefore IT expenses are expected to grow. The growth should be considered in light of the continued growth of our client base compared to the slower growth in our branch network. The number of branches grew from 856 in August 2022 to 866 at the end of August 2023. We have also increased investment in upgrades and renovations and constantly assess the locations of our branches and cash devices. As a result, premises-related expenses grew by 13% to R767 million (August 2022: R679 million).

Capital and liquidity

As at 31 August 2023, we remain well capitalised with a CAR of 36.8%.

We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 437% and our NSFR is 221%, with the regulatory requirement of 100% for both ratios.

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+.

Environmental, social and governance (ESG)

With sustainability principles embedded in our overall business strategy, we continue to contribute towards the UN Sustainability Development Goals, especially access to quality education, financial inclusion and empowerment. We believe that access to quality education, especially financial education, and employment opportunities, are key to contributing towards alleviating poverty and societal inequalities. We continued with long-standing programmes to support our employees in their career development and we are focusing on our employees' well-being. To assist our employees through challenging economic times, we also offer several employee financial relief options.

Our commitment to positive change also reflects in our latest verified Broad-based Black Economic Empowerment score which improved over a 3-year period from Level 4 to Level 2.

We continue to improve our ESG ratings across several credible ESG rating agencies: over the past 3 years, our S&P Global ESG rating has improved by 18% to 45; Morgan Stanley Capital International – A (upgraded from BBB); and London Stock Exchange Group – 47 (improving over 65% year-on-year). We are also a FTSE4Good Index constituent.

Appointment of new executive: risk management

Shareholders were informed on 7 February 2023 on SENS that Nkosana Mashiya had resigned as executive: risk management, effective 31 March 2023. The board is pleased to announce that Ismail Moola has been appointed as executive: risk management effective 1 October 2023.

Changes to the board

The following directors stepped down from the board during the reporting period: Zunaid Bulbulia on 24 April 2023 and Danie Meintjes on 26 May 2023. Naidene Ford-Hoon and Nadya Bhettay were appointed to the board effective 7 September 2023.

Interim dividend

The directors resolved that a gross interim dividend of 1 530 cents per ordinary share be declared for the 6 months ended 31 August 2023 (31 August 2022: 1 400 cents) on 28 September 2023. The dividend will be paid on Monday, 23 October 2023. There are 116 099 843 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act, Act 58 of 1962. The dividend amount, net of South African dividend tax of 20%, is 1 224 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 17 October 2023
Trading *ex*-dividend commences	Wednesday, 18 October 2023
Record date	Friday, 20 October 2023
Payment date	Monday, 23 October 2023

Share certificates may not be dematerialised or rematerialised from Wednesday, 18 October 2023 to Friday, 20 October 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.

This announcement was signed on behalf of the board by

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

Stellenbosch
28 September 2023

Condensed consolidated statement of financial position

As at 31 August 2023

R'm	August 2023	August 2022 restated[1]	August 2023/2022 restated %	Year ended February 2023 restated[1]
Assets				
Cash and cash equivalents	**25 663**	26 602	(4)	31 014
Financial assets at fair value through profit or loss (FVTPL)	**428**	—		289
Financial investments at amortised cost	**74 606**	64 112	16	61 034
Term deposit investments	**1 308**	3 317	(61)	3 628
Net loans and advances	**78 965**	72 887	8	78 168
Other receivables	**7 138**	4 655	53	4 803
Insurance contract assets	**2 492**	466	>100	1 970
Derivative assets	**28**	26	8	34
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	**74**	73	1	74
Current income tax asset	**—**	48	(100)	41
Interest in associates and joint ventures	**677**	496	36	600
Property and equipment	**3 373**	3 203	5	3 292
Right-of-use assets	**1 814**	1 850	(2)	1 821
Intangible assets including goodwill	**1 486**	1 364	9	1 436
Deferred income tax asset	**2 451**	2 660	(8)	2 432
Total assets	**200 503**	181 759	10	190 636
Liabilities				
Insurance contract liabilities	**—**	1	(100)	—
Derivative liabilities	**20**	25	(20)	24
Current income tax liability	**102**	—		—
Deposits	**151 832**	138 906	9	144 059
Wholesale funding	**2 369**	1 817	30	2 439
Other liabilities	**4 491**	3 685	22	3 874
Lease liabilities	**2 324**	2 379	(2)	2 305
Employee benefit liabilities	**12**	133	(91)	15
Total liabilities	**161 150**	146 946	10	152 716
Equity				
Capital and reserves				
Ordinary share capital and premium	**5 419**	5 649	(4)	5 406
Cash flow hedge reserve	**2**	—		1
Other reserves	**(25)**	(28)	(11)	(25)
Foreign currency translation reserve	**94**	39	>100	78
Share option reserve	**516**	516	—	516
Retained earnings	**33 301**	28 586	16	31 895
Share capital and reserves attributable to ordinary shareholders	**39 307**	34 762	13	37 871
Preference share capital and premium	**46**	51	(10)	49
Total equity	**39 353**	34 813	13	37 920
Total equity and liabilities	**200 503**	181 759	10	190 636

[1] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2.*

Condensed consolidated income statement

6 months ended 31 August 2023

R'm	August 2023	August 2022 restated[1]	August 2023/2022 restated %	Year ended February 2023 restated[1]
Interest and similar income				
Interest income	**12 537**	9 934	26	21 199
Interest income calculated using the effective interest rate	**12 206**	9 934	23	20 783
Interest income on financial assets at FVTPL	**331**	—		416
Interest expense	**(4 519)**	(3 071)	47	(6 993)
Net interest income	**8 018**	6 863	17	14 206
Non-interest income				
Loan fee income	**600**	533	13	1 088
Loan fee expense	**(6)**	(11)	(45)	(9)
Net loan fee income	**594**	522	14	1 079
Transaction fee and commission income	**9 709**	7 991	21	16 562
Transaction fee and commission expense	**(2 796)**	(2 432)	15	(5 101)
Net transaction and commission income	**6 913**	5 559	24	11 461
Foreign currency income	**257**	258	—	495
Foreign currency expense	**(175)**	(180)	(3)	(333)
Net foreign currency income	**82**	78	5	162
Insurance revenue	**2 535**	2 284	11	4 854
Insurance service expense	**(1 092)**	(1 030)	6	(2 067)
Insurance service result	**1 443**	1 254	15	2 787
Insurance finance income/(expense)	**105**	(93)	>100	(102)
Net insurance result	**1 548**	1 161	33	2 685
Other income	**77**	52	48	158
Net non-interest income	**9 214**	7 372	25	15 545
Income from operations	**17 232**	14 235	21	29 751
Credit impairments	**(4 761)**	(2 939)	62	(6 329)
Net income	**12 471**	11 296	10	23 422
Operating expenses	**(6 607)**	(5 777)	14	(11 877)
Share of net profit of associates and joint ventures	**29**	32	(9)	98
Operating profit before tax	**5 893**	5 551	6	11 643
Income tax expense	**(1 197)**	(1 226)	(2)	(2 492)
Profit for the period	**4 696**	4 325	9	9 151
Earnings per share (cents)				
Basic	**4 068**	3 739	9	7 933
Diluted	**4 062**	3 729	9	7 911

[1] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2.*

Condensed consolidated statement of other comprehensive income

6 months ended 31 August 2023

R'm	August 2023	August 2022 restated[(1)]	August 2023/2022 restated %	Year ended February 2023 restated[(1)]
Profit for the period	**4 696**	4 325	9	9 151
Other comprehensive income that may subsequently be reclassified to profit or loss	**17**	20	(15)	60
Cash flow hedge reserve recognised	**2**	8	(75)	8
Cash flow hedge reclassified to profit or loss	**(1)**	9	>100	10
Income tax relating to cash flow hedge	**—**	(5)	(100)	(5)
Foreign currency translation reserve recognised	**16**	8	100	47
Other comprehensive income that will not subsequently be reclassified to profit or loss	**1**	1	—	4
Remeasurement of defined benefit obligation	**—**	—		4
Profit on remeasurement to fair value of financial assets (FVOCI)	**1**	1	—	1
Income tax thereon	**—**	—		(1)
Total comprehensive income for the period	**4 714**	4 346	8	9 215

Reconciliation of attributable earnings to headline earnings

6 months ended 31 August 2023

R'm	August 2023	August 2022 restated[(1)]	August 2023/2022 restated %	Year ended February 2023 restated[(1)]
Profit for the period	**4 696**	4 325	9	9 151
Preference dividend	**(2)**	(2)	—	(4)
Discount on repurchase of preference shares	**(1)**	—		—
Net profit after tax attributable to ordinary shareholders	**4 693**	4 323	9	9 147
Non-headline items:				
Loss/(Profit) on disposal of property and equipment	**4**	(1)	>100	6
Taxable loss/(profit)	**3**	(5)	>100	4
Income tax	**(1)**	1	>100	(1)
Non-tax deductible loss	**2**	3	(33)	3
Headline earnings	**4 697**	4 322	9	9 153
Basic headline earnings per share (cents)	**4 072**	3 738	9	7 938
Diluted headline earnings per share (cents)	**4 066**	3 728	9	7 917
Number of shares ('000)				
Weighted average number of ordinary shares in issue ('000)	**115 627**	115 627	—	115 627
Adjustment for treasury shares	**(275)**	—		(318)
Weighted average number of ordinary shares in issue ('000)	**115 352**	115 627	—	115 309
Adjustment for:				
Exercise of share options	**174**	307	(43)	308
Weighted average number of ordinary shares for diluted headline earnings per share	**115 526**	115 934	—	115 617
Number of shares in issue per the shareholders' register	**116 100**	116 100	—	116 100

[(1)] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2.*

Condensed consolidated statement of changes in equity

6 months ended 31 August 2023

R'm	August 2023	August 2022 restated[1]	August 2023/2022 restated %	Year ended February 2023 restated[1]
Ordinary share capital and premium				
Balance at the beginning of the period	**5 406**	5 649	(4)	5 649
Shares acquired for employee share options at cost	**(26)**	–		(16)
Treasury shares	**39**	–		(227)
Balance at the end of the period	**5 419**	5 649	(4)	5 406
Cash flow hedge reserve				
Balance at the beginning of the period	**1**	(12)	>100	(12)
Total comprehensive income	**1**	12	(92)	13
Balance at the end of the period	**2**	–		1
Other reserves				
Balance at the beginning of the period	**(25)**	(29)	(14)	(29)
Total comprehensive income	**–**	1	(100)	4
Balance at the end of the period	**(25)**	(28)	(11)	(25)
Foreign currency translation reserve				
Balance at the beginning of the period	**78**	31	>100	31
Total comprehensive income	**16**	8	100	47
Balance at the end of the period	**94**	39	>100	78
Share option reserve				
Balance at the beginning of the period	**516**	516	–	516
Balance at the end of the period	**516**	516	–	516
Retained earnings				
Balance at the beginning of the period	**31 895**	29 559	8	29 559
Restatements – transition to IFRS 17	**–**	(609)	(100)	(609)
Restated balance at the beginning of the period	**31 895**	28 950	10	28 950
Restated total comprehensive income	**4 696**	4 325	9	9 151
Ordinary dividend	**(3 244)**	(4 574)	(29)	(6 187)
Preference dividend	**(2)**	(2)	–	(4)
Employee share option scheme: value of employee services	**31**	36	(14)	165
Shares acquired for employee share options at cost	**(70)**	(174)	(60)	(157)
Proceeds on settlement of employee share options	**34**	75	(55)	79
Tax effect on share options	**(5)**	6	>100	(42)
Fair value of shares utilised for net settlement	**(34)**	(56)	(39)	(59)
Preference shares repurchased	**–**	–		(1)
Balance at the end of the period	**33 301**	28 586	16	31 895
Share capital and reserves attributable to ordinary shareholders	**39 307**	34 762	13	37 871
Preference share capital and premium				
Balance at the beginning of the period	**49**	51	(4)	51
Preference shares repurchased	**(3)**	–		(2)
Balance at the end of the period	**46**	51	(10)	49
Total equity	**39 353**	34 813	13	37 920

[1] *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2.*

Condensed consolidated statement of cash flows

6 months ended 31 August 2023

R'm	August 2023	August 2022 restated[1]	August 2023/2022 restated %	Year ended February 2023 restated[1]
Cash flows from operating activities				
Cash flow from operations[2]	**3 100**	(3 775)	>100	(6 680)
Income tax paid	**(1 076)**	(1 465)	(27)	(2 546)
Interest received[2]	**12 098**	9 484	28	20 439
Interest paid[2]	**(4 468)**	(3 031)	47	(6 958)
	9 654	1 213	>100	4 255
Cash flows from investing activities				
Acquisition of property and equipment	**(444)**	(494)	(10)	(934)
Disposal of property and equipment	**9**	14	(36)	17
Acquisition of intangible assets	**(123)**	(89)	38	(229)
Investment in term deposit investments	**(1 494)**	(3 250)	(54)	(3 650)
Redemption of term deposit investments	**3 650**	700	>100	900
Acquisition of financial investments at amortised cost	**(40 273)**	(26 219)	54	(47 217)
Redemption of financial investments at amortised cost	**27 218**	25 350	7	49 653
Interest acquired in associates and joint ventures	**(32)**	(62)	(48)	(62)
	(11 489)	(4 050)	>100	(1 522)
Cash flows from financing activities				
Dividends paid	**(3 247)**	(4 574)	(29)	(6 189)
Preference shares repurchased	**(3)**	—		(3)
Issue of institutional bonds and other funding	**—**	—		750
Payment of lease liabilities	**(201)**	(179)	12	(370)
Shares acquired for settlement of employee share options	**(54)**	(111)	(51)	(111)
Participants' contribution on settlement of options	**—**	34	(100)	34
Treasury shares repurchased	**(36)**	—		(121)
	(3 541)	(4 830)	(27)	(6 010)
Effect of exchange rate changes on cash and cash equivalents	**24**	29	(17)	52
Decrease in cash and cash equivalents	**(5 352)**	(7 638)	(30)	(3 225)
Cash and cash equivalents at the beginning of the period	**31 015**	34 240	(9)	34 240
Cash and cash equivalents at the end of the period	**25 663**	26 602	(4)	31 015

(1) *The financial statements have been restated for the adoption of IFRS 17* Insurance Contracts. *Refer to note 2.*

(2) *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.*

Notes to the condensed consolidated interim financial statements

6 months ended 31 August 2023

1. Basis of preparation

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

Title	Key requirements and effective date
IFRS 17 *Insurance Contracts*	IFRS 17 became effective for annual periods commencing on or after 1 January 2023 and replaced IFRS 4 *Insurance Contracts*. Refer to note 2 for details regarding the group's application of IFRS 17.
Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice statement 2	Effective for annual periods commencing on or after 1 January 2023, entities are required to disclose their material accounting policies rather than their significant accounting policies. No material impact on the financial statements was identified resulting from the adoption of this amendment to IFRS.
Definition of accounting estimates – Amendment to IAS 8	The amendment, which is effective for annual periods commencing on or after 1 January 2023, clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. No material impact on the financial statements was identified resulting from the adoption of this amendment to IFRS.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments, which were effective for annual periods commencing on or after 1 January 2023, require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. No material impact on the financial statements was identified resulting from the adoption of this amendment to IFRS.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements, did not change compared to the prior financial year with the exception of the assumptions and judgements required in the application of IFRS 17. Refer to note 2 for details regarding these estimates and judgements.

In calculating the ECL for the 6 months ended 31 August 2023, key areas of significant management estimation and judgement included determining SICR thresholds, write-off being when there is no reasonable expectation of further recovery (5% of balance before write-off), assumptions used in the forward-looking economic model, event overlays and how historical data is used to project ECL. This was considered by applying macroeconomic information available up to 31 August 2023.

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

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

2. Restatement – Transition to IFRS 17 *Insurance Contracts*

The International Accounting Standards Board issued IFRS 17 *Insurance Contracts* (IFRS 17) to replace IFRS 4 *Insurance Contracts* (IFRS 4) for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The group has applied IFRS 17 for the annual reporting period beginning on 1 March 2023. Any adjustments to the carrying amounts of assets or liabilities were recognised as an adjustment to retained earnings on 1 March 2022, and the 2023 comparatives were restated.

The group offers funeral plan and credit life insurance to clients through contractual cell captive arrangements with registered insurance companies (cell captive insurers). These arrangements transfer significant insurance risk to the group due to the group's contractual obligation to maintain the capital requirements of the cells. The cell captive arrangements create an in-substance insurance contract between the group and the cell insurers, with the group acting as a reinsurer to the cell captive arrangements.

From 7 May 2023, the group has offered credit life insurance to clients through its subsidiary, Capitec Life Limited. IFRS 17 has been applied to these contracts from initial recognition. The same accounting policies have been adopted for credit life contracts issued through the cell and Capitec Life Limited.

2.1 Transition approach

IFRS 17 requires retrospective application unless it is impracticable to do so.

The group assessed the historical information available and determined that all reasonable and supportable information necessary to apply the full retrospective approach (FRA) was not available for the groups of insurance contracts issued prior to the transition date. The group elected to apply the modified retrospective approach, which was intended to achieve the closest possible outcome to the FRA maximising the use of available information.

To the extent that reasonable and supportable information was not available at the date of initial recognition, the group applied the annual grouping exemption and identified groups of insurance contracts based on profitability as at the transition date. All contracts issued before 1 March 2022 were included in a single group for each portfolio of contracts. All groups of contracts recognised after the transition date are measured in accordance with the requirements of IFRS 17.

The group assessed the contract service margin (CSM) on the date of transition to determine whether insurance contracts belong to 1 of 3 profitability groups: groups of onerous contracts, groups of contracts that have no significant possibility of becoming onerous subsequently, and groups of contracts that are neither onerous nor have no significant possibility of becoming onerous subsequently. The likelihood of changes in profitability was also assessed at the transition date. No onerous groups of insurance contracts existed at the transition date.

2.2 Application

Capitec accepts significant insurance risk from its policyholders when issuing insurance contracts in the normal course of business. All of Capitec's insurance contracts are classified as insurance contracts without direct participation features and there are no investment components within insurance contracts issued.

The group recognises groups of insurance contracts issued from the earliest of the following dates:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group of contracts becomes due (in the absence of a contractual due date, this is deemed to be when the first payment is received)
- The date when a group of contracts becomes onerous.

Measurement of insurance contracts – initial recognition

The accounting model applied to insurance contracts that are issued for the purpose of measurement is the General Measurement Model (GMM). For measurement purposes, insurance contracts are allocated to portfolios that are managed together and are subject to similar risks. The group determined that all contracts within each product line, as defined for management purposes, have similar risks. Capitec has therefore defined portfolios of insurance contracts issued based on its product lines, namely credit life and funeral.

2. Restatement – Transition to IFRS 17 *Insurance Contracts* continued

2.2 Application continued

Measurement of insurance contracts – initial recognition continued

The GMM measures a group of insurance contracts as the total of fulfilment cash flows (FCFs) and a CSM representing the unearned profit the Capitec group will recognise as it provides insurance contract services under the insurance contracts in the insurance contract group.

FCFs are probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks (best estimate liability (BEL)), plus a risk adjustment (RA) for non-financial risk.

When estimating future cash flows, Capitec includes all cash flows that are within the contract boundary including:
- premiums and related cash flows
- claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs
- claims handling costs
- policy administration and maintenance costs
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- transaction-based taxes.

The contract boundary is set based on the product characteristics and defines the cash flows included in the BEL calculation and for how long those cash flows are projected.

The discount rates reflect the characteristics of the cash flows including timing, currency and liquidity of cash flows. The determination of the discount rate requires significant judgement and estimation.

The RA for non-financial risk represents the compensation that is required for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts that arise from non-financial risk. The main sources of non-financial risk are mortality risk and lapse risk. Other risks included in the RA are disability, expenses and retrenchment.

The CSM represents the unearned profit in the group of insurance contracts that has not yet been recognised in profit or loss because it relates to future services to be provided. Capitec measures the CSM on initial recognition at an amount that, unless the group of contracts is onerous, results in no income or expenses arising on that initial recognition.

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for incurred claims related to past service. The liability for remaining coverage comprises the FCFs for future services, the CSM yet to be earned and any outstanding premiums for insurance contract services already provided for. The liability for incurred claims is the liability to pay valid claims, other incurred insurance expenses arising from past coverage service and liability for claims incurred but not yet reported.

Measurement of insurance contracts – subsequent to recognition

The BEL will be re-estimated based on updated current assumptions and rates. The RA will continue to be remeasured to reflect changes in the expected cash flows and uncertainty.

The CSM is updated for:
- new contracts added
- interest accreted
- changes in the best estimate of FCFs related to future service
- the amount recognised as insurance revenue for insurance services provided.

Income statement

Insurance revenue represents the portion of the total consideration to which the Capitec group is entitled for the insurance cover provided in the period. The revenue is made up of:
- the expected cost to provide the service (such as the expected claims and maintenance expenses)
- the expected profit
- adjustments for premium receipts that relate to current or past services.

2. Restatement – Transition to IFRS 17 *Insurance Contracts* continued

2.2 Application continued

Income statement continued

This is summarised as:

- Insurance service expenses (cost of providing the service)
- Adjustments for premium receipts that relate to current or past services
- Amounts related to insurance acquisition cash flows (cost of providing the service)
- The RA release (profit earned on providing the service)
- The CSM release (profit earned on providing the service).

Insurance service expenses represent the actual cost of providing insurance services for the period and include all directly attributable costs. A breakdown of the insurance service expense will be provided in each reporting period, consisting of:

- incurred claims and other expenses
- amortisation of insurance acquisition cash flows
- losses on onerous contracts and reversals of those losses
- changes to liabilities for incurred claims
- impairment of assets for insurance acquisition cash flows
- reversal of impairment of assets for insurance acquisition cash flows.

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money, and
- the effect of financial risk and changes in financial risk.

Capitec does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVTPL.

2.3 Critical estimates and judgements

Liabilities for remaining coverage

The BEL is the best estimate of the present value of all future cash flows. The estimate of future cash flows allows for the amount, timing and uncertainty of those future cash flows. Allowance for uncertainty of the future cash flows is based on best estimate assumptions. Financial assumptions are at the valuation date, such as the discount rate and inflation assumptions. Persistency, mortality, retrenchment and disability assumptions are set based on the latest experience analysis.

IFRS 17 does not specify the estimation technique for determining the RA. Capitec applies the value at risk methodology, which quantifies the uncertainty in expected outflows for insurance products at a predetermined confidence level over a specified time frame.

Liabilities for incurred claims

The liability for incurred claims (LIC) provision is measured as the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, plus an RA. An LIC is held for the credit life assurance business for retrenchment, death and disability claims.

Contractual service margin

The CSM recognised in the period is determined by allocating the CSM at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future and recognising in profit or loss the amount allocated to coverage units provided in the period. The number of coverage units in a group of insurance contracts is the quantity of insurance contract services provided by the contracts in the group of insurance contracts, determined by considering the quantity of the benefits provided and the expected coverage period.

For groups of insurance contracts, the quantity of benefits is the contractually agreed sum assured over the period of the contracts. The coverage units for the current period are based on the actual coverage units for the current period. The coverage units for future periods are based on the discounted value of the expected coverage units over the remaining expected coverage period after allowing for reassessments at the end of the current period.

2. Restatement – Transition to IFRS 17 *Insurance Contracts* continued

2.4 Impact on the result of operations and financial position

Restatement of statements of financial position

GROUP R'm	August 2022 as previously reported	August 2022 restatement	August 2022 restated	Year ended February 2023 as previously reported	Year ended February 2023 restatement	Year ended February 2023 restated	1 March 2022 restated
Assets							
Cash and cash equivalents	26 602	—	26 602	31 014	—	31 014	34 239
Financial assets at fair value through profit or loss (FVTPL)	—	—	—	289	—	289	—
Financial investments at amortised cost	64 112	—	64 112	61 034	—	61 034	62 940
Term deposit investments	3 317	—	3 317	3 628	—	3 628	722
Net loans and advances	72 887	—	72 887	78 168	—	78 168	66 549
Other receivables	5 521	(866)	4 655	6 429	(1 626)	4 803	2 808
Insurance contract assets	—	466	466	—	1 970	1 970	745
Net insurance receivable	551	(551)	—	1 509	(1 509)	—	—
Derivative assets	26	—	26	34	—	34	15
Financial assets - equity instruments at fair value through other comprehensive income (FVOCI)	73	—	73	74	—	74	73
Current income tax asset	48	—	48	41	—	41	—
Interest in associates and joint ventures	496	—	496	600	—	600	394
Property and equipment	3 203	—	3 203	3 292	—	3 292	3 022
Right-of-use assets	1 850	—	1 850	1 821	—	1 821	1 909
Intangible assets including goodwill	1 364	—	1 364	1 436	—	1 436	1 348
Deferred income tax asset	2 660	—	2 660	2 432	—	2 432	2 769
Total assets	182 710	(951)	181 759	191 801	(1 165)	190 636	177 533
Liabilities							
Insurance contract liabilities	—	1	1	—	—	—	199
Derivative liabilities	25	—	25	24	—	24	34
Current income tax liability	—	—	—	—	—	—	302
Deposits	138 906	—	138 906	144 059	—	144 059	132 398
Wholesale funding	1 817	—	1 817	2 439	—	2 439	2 060
Other liabilities	3 685	—	3 685	3 874	—	3 874	4 747
Lease liabilities	2 379	—	2 379	2 305	—	2 305	2 425
Employee benefit liabilities	133	—	133	15	—	15	212
Total liabilities	146 945	1	146 946	152 716	—	152 716	142 377
Equity							
Capital and reserves							
Ordinary share capital and premium	5 649	—	5 649	5 406	—	5 406	5 649
Cash flow hedge reserve	—	—	—	1	—	1	(12)
Other reserves	(28)	—	(28)	(25)	—	(25)	(29)
Foreign currency translation reserve	39	—	39	78	—	78	31
Share option reserve	516	—	516	516	—	516	516
Retained earnings	29 538	(952)	28 586	33 060	(1 165)	31 895	28 950
Share capital and reserves attributable to ordinary shareholders	35 714	(952)	34 762	39 036	(1 165)	37 871	35 105
Preference share capital and premium	51	—	51	49	—	49	51
Total equity	35 765	(952)	34 813	39 085	(1 165)	37 920	35 156
Total equity and liabilities	182 710	(951)	181 759	191 801	(1 165)	190 636	177 533

2. Restatement – Transition to IFRS 17 *Insurance Contracts* continued

2.4 Impact on the result of operations and financial position continued

Restatement of income statements

	GROUP					
R'm	August 2022 as previously reported	August 2022 restatement	August 2022 restated	Year ended February 2023 as previously reported	Year ended February 2023 restatement	Year ended February 2023 restated
Interest and similar income						
Interest income	9 934	—	9 934	21 199	—	21 199
Interest income calculated using the effective interest rate	9 934	—	9 934	20 783	—	20 783
Interest income on financial assets at FVTPL	—	—	—	416	—	416
Interest expense	(3 071)	—	(3 071)	(6 993)	—	(6 993)
Net interest income	6 863	—	6 863	14 206	—	14 206
Non-interest income						
Loan fee income	533	—	533	1 088	—	1 088
Loan fee expense	(11)	—	(11)	(9)	—	(9)
Net loan fee income	522	—	522	1 079	—	1 079
Transaction fee and commission income	7 991	—	7 991	16 562	—	16 562
Transaction fee and commission expense	(2 432)	—	(2 432)	(5 101)	—	(5 101)
Net transaction and commission income	5 559	—	5 559	11 461	—	11 461
Foreign currency income	258	—	258	495	—	495
Foreign currency expense	(180)	—	(180)	(333)	—	(333)
Net foreign currency income	78	—	78	162	—	162
Insurance revenue	—	2 329	2 329	—	4 985	4 985
Insurance service expense	—	(1 030)	(1 030)	—	(2 067)	(2 067)
Insurance service result	—	1 299	1 299	—	2 918	2 918
Insurance finance income/(expense)	—	(138)	(138)	—	(233)	(233)
Net insurance result	—	1 161	1 161	—	2 685	2 685
Net insurance income	912	(912)	—	1 889	(1 889)	—
Funeral plan income	629	(629)	—	1 431	(1 431)	—
Other income	15	37	52	79	79	158
Net non-interest income	7 715	(343)	7 372	16 101	(556)	15 545
Income from operations	14 578	(343)	14 235	30 307	(556)	29 751
Credit impairments	(2 939)	—	(2 939)	(6 329)	—	(6 329)
Net income	11 639	(343)	11 296	23 978	(556)	23 422
Operating expenses	(5 777)	—	(5 777)	(11 877)	—	(11 877)
Share of net profit of associates and joint ventures	32	—	32	98	—	98
Operating profit before tax	5 894	(343)	5 551	12 199	(556)	11 643
Income tax expense	(1 226)	—	(1 226)	(2 492)	—	(2 492)
Profit for the period	4 668	(343)	4 325	9 707	(556)	9 151

3. 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	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 31 August 2023									
Gross loans and advances	**48 486**	**11 020**	**1 575**	**1 359**	**2 503**	**2 422**	**2 003**	**14 407**	**83 775**
Term loan	**25 721**	**6 626**	**1 070**	**769**	**1 651**	**1 720**	**1 605**	**9 830**	**48 992**
Access facility	**16 306**	**3 754**	**444**	**422**	**702**	**702**	**398**	**3 476**	**26 204**
Credit card	**6 459**	**640**	**61**	**168**	**150**	**—**	**—**	**1 101**	**8 579**
Provision for credit impairments (ECL)[2]	**(3 644)**	**(2 617)**	**(355)**	**(678)**	**(1 740)**	**(766)**	**(554)**	**(10 528)**	**(20 882)**
Term loan	**(1 811)**	**(1 123)**	**(185)**	**(379)**	**(1 179)**	**(524)**	**(417)**	**(7 124)**	**(12 742)**
Access facility	**(1 412)**	**(1 307)**	**(154)**	**(224)**	**(478)**	**(242)**	**(137)**	**(2 502)**	**(6 456)**
Credit card	**(421)**	**(187)**	**(16)**	**(75)**	**(83)**	**—**	**—**	**(902)**	**(1 684)**
Net loans and advances	**44 842**	**8 403**	**1 220**	**681**	**763**	**1 656**	**1 449**	**3 879**	**62 893**
Term loan	**23 910**	**5 503**	**885**	**390**	**472**	**1 196**	**1 188**	**2 706**	**36 250**
Access facility	**14 894**	**2 447**	**290**	**198**	**224**	**460**	**261**	**974**	**19 748**
Credit card	**6 038**	**453**	**45**	**93**	**67**	**—**	**—**	**199**	**6 895**
ECL coverage (%)	**7.5**	**23.7**	**22.5**	**49.9**	**69.5**	**31.6**	**27.7**	**73.1**	**24.9**
Term loan	**7.0**	**16.9**	**17.3**	**49.3**	**71.4**	**30.5**	**26.0**	**72.5**	**26.0**
Access facility	**8.7**	**34.8**	**34.7**	**53.1**	**68.1**	**34.5**	**34.4**	**72.0**	**24.6**
Credit card	**6.5**	**29.2**	**26.2**	**44.6**	**55.3**			**81.9**	**19.6**
% of gross loan book	**58**	**13**	**2**	**2**	**3**	**3**	**2**	**17**	**100**
Term loan	**31**	**8**	**1**	**1**	**2**	**2**	**2**	**12**	**59**
Access facility	**19**	**4**	**1**	**1**	**1**	**1**	**—**	**4**	**31**
Credit card	**8**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**10**
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
Term loan	27 836	6 245	1 024	1 032	1 589	1 515	1 653	9 213	50 107
Access facility	16 599	3 018	848	554	485	402	262	2 291	24 459
Credit card	5 885	540	79	178	128	—	—	921	7 731
Provision for credit impairments (ECL)[2]	(3 634)	(2 219)	(468)	(851)	(1 493)	(584)	(527)	(9 030)	(18 806)
Term loan	(1 855)	(1 062)	(169)	(498)	(1 103)	(452)	(441)	(6 649)	(12 229)
Access facility	(1 385)	(997)	(279)	(276)	(317)	(132)	(86)	(1 675)	(5 147)
Credit card	(394)	(160)	(20)	(77)	(73)	—	—	(706)	(1 430)
Net loans and advances	46 686	7 584	1 483	913	709	1 333	1 388	3 395	63 491
Term loan	25 981	5 183	855	534	486	1 063	1 212	2 564	37 878
Access facility	15 214	2 021	569	278	168	270	176	616	19 312
Credit card	5 491	380	59	101	55	—	—	215	6 301
ECL coverage (%)	7.2	22.6	24.0	48.2	67.8	30.5	27.5	72.7	22.9
Term loan	6.7	17.0	16.5	48.3	69.4	29.8	26.7	72.2	24.4
Access facility	8.3	33.0	32.9	49.8	65.4	32.8	32.8	73.1	21.0
Credit card	6.7	29.6	25.3	43.3	57.0			76.7	18.5
% of gross loan book	62	12	2	2	3	2	2	15	100
Term loan	34	8	1	1	2	2	2	11	61
Access facility	21	3	1	1	1	—	—	3	30
Credit card	7	1	—	—	—	—	—	1	9

[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.

3. Net loans and advances continued

Retail bank continued

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 31 August 2022									
Gross loans and advances	49 450	9 165	1 705	1 510	2 026	1 280	1 670	11 099	77 905
Term loan	29 465	6 166	1 113	983	1 582	1 265	1 599	8 784	50 957
Access facility	14 706	2 439	349	399	332	15	71	1 443	19 754
Credit card	5 279	560	243	128	112	—	—	872	7 194
Provision for credit impairments (ECL)[2]	(4 884)	(1 929)	(390)	(751)	(1 385)	(362)	(412)	(8 186)	(18 299)
Term loan	(2 635)	(1 044)	(186)	(475)	(1 109)	(357)	(391)	(6 447)	(12 644)
Access facility	(1 774)	(718)	(133)	(220)	(212)	(5)	(21)	(1 042)	(4 125)
Credit card	(475)	(167)	(71)	(56)	(64)	—	—	(697)	(1 530)
Net loans and advances	44 566	7 236	1 315	759	641	918	1 258	2 913	59 606
Term loan	26 830	5 122	927	508	473	908	1 208	2 337	38 313
Access facility	12 932	1 721	216	179	120	10	50	401	15 629
Credit card	4 804	393	172	72	48	—	—	175	5 664
ECL coverage (%)	9.9	21.0	22.9	49.7	68.4	28.3	24.7	73.8	23.5
Term loan	8.9	16.9	16.7	48.3	70.1	28.2	24.5	73.4	24.8
Access facility	12.1	29.4	38.1	55.1	63.9	33.3	29.6	72.2	20.9
Credit card	9.0	29.8	29.2	43.8	57.1			79.9	21.3
% of gross loan book	63	12	2	2	3	2	2	14	100
Term loan	38	8	2	1	2	2	2	11	66
Access facility	18	3	—	1	1	—	—	2	25
Credit card	7	1	—	—	—	—	—	1	9

(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.

3. Net loans and advances continued

Business bank

R'm	Stage 1 12-month ECL: Up-to-date	Stage 1 12-month ECL: Up to 1 month in arrears	Stage 2 Lifetime ECL: Up-to-date loans SICR	Stage 2 Lifetime ECL: Forward-looking SICR	Stage 2 Lifetime ECL: 2 and 3 months in arrears	Stage 2 Lifetime ECL: Rescheduled from up-to-date (not yet rehabilitated)	Stage 2 Lifetime ECL: Rescheduled from arrears (not yet rehabilitated)	Stage 3 Lifetime ECL: More than 3 months in arrears, legal statuses and applied for business rescue liquidations <6 months	Total
Balance as at 31 August 2023									
Gross loans and advances	**14 302**	**141**	**361**	**415**	**62**	**380**	**108**	**1 333**	**17 102**
Business loans	**6 986**	**75**	**234**	**136**	**36**	**322**	**21**	**620**	**8 430**
Mortgage loans	**7 316**	**66**	**127**	**279**	**26**	**58**	**87**	**713**	**8 672**
Provision for credit impairments (ECL)[(1)(2)]	**(272)**	**(4)**	**(100)**	**(28)**	**(12)**	**(22)**	**(10)**	**(582)**	**(1 030)**
Business loans	**(204)**	**(3)**	**(90)**	**(13)**	**(11)**	**(18)**	**(5)**	**(408)**	**(752)**
Mortgage loans	**(68)**	**(1)**	**(10)**	**(15)**	**(1)**	**(4)**	**(5)**	**(174)**	**(278)**
Net loans and advances	**14 030**	**137**	**261**	**387**	**50**	**358**	**98**	**751**	**16 072**
Business loans	**6 782**	**72**	**144**	**123**	**25**	**304**	**16**	**212**	**7 678**
Mortgage loans	**7 248**	**65**	**117**	**264**	**25**	**54**	**82**	**539**	**8 394**
ECL coverage (%)[(3)]	**1.9**	**2.9**	**27.6**	**6.7**	**20.2**	**5.9**	**8.7**	**43.7**	**6.0**
Business loans	**2.9**	**4.3**	**38.5**	**9.8**	**31.1**	**5.6**	**22.3**	**65.8**	**8.9**
Mortgage loans	**0.9**	**1.3**	**7.5**	**5.2**	**5.5**	**7.4**	**5.3**	**24.5**	**3.2**
% of gross loan book	**84**	**1**	**2**	**2**	**—**	**2**	**1**	**8**	**100**
Business loans	**41**	**—**	**1**	**1**	**—**	**2**	**—**	**4**	**49**
Mortgage loans	**43**	**1**	**1**	**1**	**—**	**—**	**1**	**4**	**51**
Balance as at 28 February 2023									
Gross loans and advances	13 043	134	413	265	90	346	99	1 128	15 518
Business loans	6 142	82	228	134	40	312	28	496	7 462
Mortgage loans	6 901	52	185	131	50	34	71	632	8 056
Provision for credit impairments (ECL)[(1)(2)]	(225)	(3)	(99)	(28)	(21)	(17)	(12)	(436)	(841)
Business loans	(196)	(3)	(85)	(20)	(17)	(14)	(7)	(291)	(633)
Mortgage loans	(29)	—	(14)	(8)	(4)	(3)	(5)	(145)	(208)
Net loans and advances	12 818	131	314	237	69	329	87	692	14 677
Business loans	5 946	79	143	114	23	298	21	205	6 829
Mortgage loans	6 872	52	171	123	46	31	66	487	7 848
ECL coverage (%)[(3)]	1.7	2.1	24.0	10.7	23.6	5.0	11.7	38.6	5.4
Business loans	3.2	3.0	37.2	15.1	44.1	4.6	23.6	58.6	8.5
Mortgage loans	0.4	0.6	7.6	6.2	7.5	7.9	7.1	22.9	2.6
% of gross loan book	84	1	3	1	1	2	1	7	100
Business loans	40	1	2	1	—	2	—	3	49
Mortgage loans	44	—	1	—	1	—	1	4	51

[(1)] *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.*

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

[(3)] *The ECL coverage ratio is calculated before rounding in thousands.*

3. Net loans and advances continued

Business bank continued

	Stage 1 12-month ECL		Stage 2 Lifetime ECL					Stage 3 Lifetime ECL	
R'm	Up-to-date	Up to 1 month in arrears	Up-to-date loans SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[1]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations <6 months	Total
Balance as at 31 August 2022									
Gross loans and advances	11 835	100	375	42	141	111	463	963	14 030
Business loans	5 479	43	203	21	139	16	272	400	6 573
Mortgage loans	6 356	57	172	21	2	95	191	563	7 457
Provision for credit impairments (ECL)[2][3]	(231)	(1)	(89)	(11)	(20)	(11)	(71)	(315)	(749)
Business loans	(208)	(1)	(73)	(10)	(20)	(2)	(55)	(233)	(602)
Mortgage loans	(23)	—	(16)	(1)	—	(9)	(16)	(82)	(147)
Net loans and advances	11 604	99	286	31	121	100	392	648	13 281
Business loans	5 271	42	130	11	119	14	217	167	5 971
Mortgage loans	6 333	57	156	20	2	86	175	481	7 310
ECL coverage (%)[4]	2.0	1.2	23.8	25.4	14.4	9.9	15.3	32.7	5.3
Business loans	3.8	2.4	35.9	45.4	14.4	14.4	20.4	58.3	9.2
Mortgage loans	0.4	0.2	9.6	4.9	9.0	9.1	8.1	14.5	2.0
% of gross loan book	84	1	3	—	1	1	3	7	100
Business loans	39	—	2	—	1	—	2	3	47
Mortgage loans	45	1	1	—	—	1	1	4	53

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

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

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

[4] *The ECL coverage ratio is calculated before rounding in thousands.*

4. Insurance contract asset/(liability) roll-forward

The results of the insurance contracts held in the cell captives represent solely Capitec's share in the cell captive venture. These results are net of tax that the cell is liable to pay and net of any reinsurance agreement the cell may have.

The estimates of the present value of future cash flows include investments held by the cell, which consist mostly of money market funds, cash and the net accounts payable and receivable. The balance of the investments held by the cell as at 31 August 2023 was R2,663 million for the funeral cell and R1,819 million for the credit life cell (February 2023: R1,814 million and R1,861 million; August 2022: R959 million and R892 million, respectively).

Insurance contracts are disclosed by major product line, namely funeral policies and credit life policies. The following is a reconciliation of the asset/liability position of the major product lines:

R'm	Funeral	Credit life	Total
Reconciliation of insurance contracts as at 31 August 2023			
Insurance contract assets	**1 252**	**1 240**	**2 492**
Reconciliation of insurance contracts as at 28 February 2023			
Insurance contract assets	616	1 354	1 970
Reconciliation of insurance contracts as at 31 August 2022			
Insurance contract assets/(liabilities)	(1)	466	465

4. Insurance contract asset/(liability) roll-forward continued

Funeral policies

R'm	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total asset/ (liability)
Insurance contract assets as at 1 March 2023	**4 308**	**(819)**	**(2 873)**	**616**
Changes that relate to current services				
Contractual service margin recognised for current service provided	—	—	371	371
Risk adjustment recognised for the risk expired	—	147	—	147
Experience adjustments	43	—	—	43
Changes that relate to future services				
Contracts initially recognised in the period	703	(188)	(515)	—
Changes in estimates that adjust the contractual service margin	1	8	(9)	—
Insurance service result	747	(33)	(153)	561
Insurance finance income/(expense)	271	(55)	(141)	75
Total changes in the income statement	1 018	(88)	(294)	636
Cash flows				
Premiums received	(1 096)	—	—	(1 096)
Claims and other expenses paid	256	—	—	256
Insurance acquisition cash flows paid	53	—	—	53
Net cell captive cash flows	787	—	—	787
Total cash flows	—	—	—	—
Insurance contract assets as at 31 August 2023	**5 326**	**(907)**	**(3 167)**	**1 252**
Insurance contract assets/(liabilities) as at 1 March 2022	2 660	(664)	(2 195)	(199)
Changes that relate to current services				
Contractual service margin recognised for current service provided	—	—	646	646
Risk adjustment recognised for the risk expired	—	254	—	254
Experience adjustments	187	—	—	187
Changes that relate to future services				
Contracts initially recognised in the period	1 294	(347)	(947)	—
Changes in estimates that adjust the contractual service margin	151	(18)	(133)	—
Insurance service result	1 632	(111)	(434)	1 087
Insurance finance income/(expense)	219	(44)	(244)	(69)
Total changes in the income statement	1 851	(155)	(678)	1 018
Cash flows				
Premiums received	(1 967)	—	—	(1 967)
Claims and other expenses paid	63	—	—	63
Insurance acquisition cash flows paid	91	—	—	91
Net cell captive cash flows	1 610	—	—	1 610
Total cash flows	(203)	—	—	(203)
Insurance contract assets as at 28 February 2023	4 308	(819)	(2 873)	616

4. Insurance contract asset roll-forward continued

Funeral policies continued

R'm	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total asset/ (liability)
Insurance contract assets/(liabilities) as at 1 March 2022	2 660	(664)	(2 195)	(199)
Changes that relate to current services				
Contractual service margin recognised for current service provided	—	—	304	304
Risk adjustment recognised for the risk expired	—	117	—	117
Experience adjustments	33	—	—	33
Changes that relate to future services				
Contracts initially recognised in the period	660	(177)	(483)	—
Changes in estimates that adjust the contractual service margin	19	7	(26)	—
Insurance service result	712	(53)	(205)	454
Insurance finance income/(expense)	66	(7)	(112)	(53)
Total changes in the income statement	778	(60)	(317)	401
Cash flows				
Premiums received	(879)	—	—	(879)
Claims and other expenses paid	29	—	—	29
Insurance acquisition cash flows paid	43	—	—	43
Net cell captive cash flows	604	—	—	604
Total cash flows	(203)	—	—	(203)
Insurance contract assets/(liabilities) as at 31 August 2022	3 235	(724)	(2 512)	(1)

The expected recognition timeline of the CSM as at 31 August 2023 is detailed below, including interest accretion.

R'm	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	>10 years
Opening balance as at 1 September 2023	**(3 167)**	**(2 804)**	**(2 508)**	**(2 272)**	**(2 065)**	**(1 882)**	**(1 195)**
CSM release and interest accretion	**363**	**296**	**236**	**207**	**183**	**687**	**1 195**
Closing balance	**(2 804)**	**(2 508)**	**(2 272)**	**(2 065)**	**(1 882)**	**(1 195)**	**—**

4. Insurance contract asset roll-forward continued

Credit life policies

R'm	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total asset
Insurance contract assets as at 1 March 2023	**4 425**	**(693)**	**(2 378)**	**1 354**
Changes that relate to current services				
Contractual service margin recognised for current service provided	**—**	**—**	**616**	**616**
Risk adjustment recognised for the risk expired	**—**	**122**	**—**	**122**
Experience adjustments	**97**	**—**	**—**	**97**
Changes that relate to future services				
Contracts initially recognised in the period	**464**	**(85)**	**(379)**	**—**
Changes in estimates that adjust the contractual service margin	**185**	**(19)**	**(166)**	**—**
Changes that relate to past services				
Adjustment to liabilities for past claims	**19**	**28**	**—**	**47**
Insurance service result	**765**	**46**	**71**	**882**
Insurance finance income/(expense)	**164**	**(25)**	**(109)**	**30**
Total changes in the income statement	**929**	**21**	**(38)**	**912**
Cash flows				
Premiums received	**(1 699)**	**—**	**—**	**(1 699)**
Claims and other expenses paid	**740**	**—**	**—**	**740**
Net cell captive cash flows	**(67)**	**—**	**—**	**(67)**
Total cash flows	**(1 026)**	**—**	**—**	**(1 026)**
Insurance contract assets as at 31 August 2023	**4 328**	**(672)**	**(2 416)**	**1 240**
Insurance contract assets as at 1 March 2022	3 406	(630)	(2 031)	745
Changes that relate to current services				
Contractual service margin recognised for current service provided	—	—	1 176	1 176
Risk adjustment recognised for the risk expired	—	248	—	248
Experience adjustments	157	—	—	157
Changes that relate to future services				
Contracts initially recognised in the period	1 231	(277)	(954)	—
Changes in estimates that adjust the contractual service margin	411	(55)	(356)	—
Changes that relate to past services				
Adjustment to liabilities for past claims	66	53	—	119
Insurance service result	1 865	(31)	(134)	1 700
Insurance finance income/(expense)	212	(32)	(213)	(33)
Total changes in the income statement	2 077	(63)	(347)	1 667
Cash flows				
Premiums received	(3 337)	—	—	(3 337)
Claims and other expenses paid	804	—	—	804
Net cell captive cash flows	1 475	—	—	1 475
Total cash flows	(1 058)	—	—	(1 058)
Insurance contract assets as at 28 February 2023	4 425	(693)	(2 378)	1 354

4. Insurance contract asset roll-forward continued

Credit life policies continued

R'm	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total asset
Insurance contract assets as at 1 March 2022	3 406	(630)	(2 031)	745
Changes that relate to current services				
Contractual service margin recognised for current service provided	—	—	586	586
Risk adjustment recognised for the risk expired	—	125	—	125
Experience adjustments	15	—	—	15
Changes that relate to future services				
Contracts initially recognised in the period	686	(154)	(532)	—
Changes in estimates that adjust the contractual service margin	202	(23)	(179)	—
Changes that relate to past services				
Adjustment to liabilities for past claims	49	25	—	74
Insurance service result	952	(27)	(125)	800
Insurance finance income/(expense)	66	(7)	(99)	(40)
Total changes in the income statement	1 018	(34)	(224)	760
Cash flows				
Premiums received	(1 645)	—	—	(1 645)
Claims and other expenses paid	412	—	—	412
Net cell captive cash flows	194	—	—	194
Total cash flows	(1 039)	—	—	(1 039)
Insurance contract assets as at 31 August 2022	3 385	(664)	(2 255)	466

Currently, the direct business on Capitec's licence is immaterial and has not been presented separately above.

The expected recognition timeline of the CSM as at 31 August 2023 is detailed below, including interest accretion.

R'm	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	>10 years
Opening balance as at 1 September 2023	**(2 416)**	**(1 697)**	**(1 198)**	**(903)**	**(706)**	**(565)**	**(203)**
CSM release and interest accretion	**719**	**499**	**295**	**197**	**141**	**362**	**203**
Closing balance	**(1 697)**	**(1 198)**	**(903)**	**(706)**	**(565)**	**(203)**	**—**

5. Commitments and contingent liabilities

R'm	August 2023	August 2022	August 2023/2022 %	Year ended February 2023
Capital commitments – approved by the board				
Contracted for:				
Property and equipment[1]	**507**	141	>100	672
Intangible assets	**15**	45	(67)	3
Not contracted for:				
Property and equipment	**411**	341	21	1 034
Intangible assets	**129**	130	(1)	206
Total capital commitments	**1 063**	657	62	1 915
Loan commitments – gross of loss allowances[2]				
Retail bank loan commitments – off-balance sheet	**15 011**	14 590	3	15 800
Access facility	**12 542**	12 657	(1)	13 710
Credit card	**2 469**	1 933	28	2 090
Business bank loan commitments – off-balance sheet	**341**	238	43	304
Bonds	**254**	155	64	220
Credit card	**87**	83	5	84
Guarantees – Business bank	**728**	773	(6)	771
Letters of credit – Business bank	**7**	11	(36)	32
Total loan commitments, guarantees and letters of credit	**16 087**	15 612	3	16 907

[1] *Included in the February 2023 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 is also recognised as a provision in other liabilities.*

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

Determination of fair values and valuation process

Fair values are market-based, calculated with reference to observable inputs available in the market, then less observable inputs 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 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.

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 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.

6. Fair value hierarchy and classification of financial assets and liabilities continued

Hierarchy of fair value of financial instruments continued

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.

R'm	August 2023	August 2022 restated	Year ended February 2023 restated	Hierarchy of valuation technique
Financial assets				
Cash and cash equivalents	**25 663**	26 602	31 015	Level 2
Financial assets at FVTPL	**428**	—	289	Level 2
Term deposit investments	**1 308**	3 317	3 628	Level 2
Financial investments at amortised cost	**73 758**	63 191	60 390	Level 2
Financial assets – equity instruments at FVOCI	**74**	73	74	Level 3
Net loans and advances – Term loans	**35 541**	38 350	36 986	Level 3
Net loans and advances – Access facility	**21 243**	17 535	20 756	Level 3
Net loans and advances – Credit card	**7 296**	6 158	6 684	Level 3
Net loans and advances – Business	**7 879**	6 181	7 027	Level 3
Net loans and advances – Mortgage	**8 463**	7 333	7 877	Level 3
Other receivables	**6 585**	4 775	4 558	Level 2
Derivative assets	**28**	26	34	Level 2
Financial liabilities				
Deposits and bonds	**154 588**	140 101	146 185	Level 2
Derivative liabilities	**20**	25	24	Level 2
Trade and other payables	**3 262**	2 216	2 447	Level 2

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. 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.
Business bank loans and advances	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 discounted cash flow, external valuations and published price quotations on the JSE equity and debt 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.

6. Fair value hierarchy and classification of financial assets and liabilities continued

Hierarchy of fair value of financial instruments continued

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

Item and description	Valuation technique
Insurance contract assets	The fair value of insurance contract assets is determined using an actuarial model that discounts estimated future cash flows expected to be received.
Term deposit investments	Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period.
Financial investments at amortised cost – treasury bills	Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period.
Financial investments at amortised cost – government bonds	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 values of the retail call deposits closely approximate their carrying amounts due to their demand nature. The fair values for instruments with specified future repayment terms were calculated as described as follows.
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 market. The pricing method used by the JSE 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.

7. Segment information

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

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

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

Within the segments, there 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
- VAS 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 2 categories of loans, namely mortgage loans and business loans. Business loans include term loans, overdrafts, instalment sales, leases and credit cards
- Call and notice deposits
- Treasury products that comprise foreign exchange spot trades and foreign exchange forward contracts.

Insurance

For several years, 2 cell captive arrangements have enabled the group to provide long-term insurance products to Retail bank clients. Capitec Ins Proprietary Limited is the shareholder of the cells and participates in the operating results in the form of an attribution of profit.

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

- Prior to 7 May 2023, credit insurance, underwritten by Guardrisk Life Limited, provided cover for the settlement of debt in the event of death, permanent disability, temporary disability or retrenchment
- From 7 May 2023, the group has offered credit life insurance to clients through its subsidiary, Capitec Life Limited. The transfer of the existing credit life policies that are held with Guardrisk Life Limited to Capitec Life Limited has been initiated
- The Capitec funeral plan, underwritten by Centriq Life Insurance Company Limited, is a policy that provides cover for funeral costs.

7. Segment information continued

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.

	August 2023				August 2022 restated			
R'm	Retail bank	Business bank	Insurance	Total	Retail bank	Business bank	Insurance	Total
Interest and similar income								
Interest income	11 551	1 263	10	12 537	9 347	772	3	9 934
Interest income on lending calculated using the effective interest rate[3]	7 994	991	—	8 985	6 820	612	—	7 432
Interest income on investments calculated using the effective interest rate[1][2][3]	3 236	272	—	3 221	2 527	160	3	2 502
Interest income on financial assets at FVTPL	321	—	10	331	—	—	—	—
Interest expense[1][2]	(4 233)	(573)	—	(4 519)	(2 922)	(337)	—	(3 071)
Net interest income	7 318	690	10	8 018	6 425	435	3	6 863
Non-interest income								
Loan fee income	600	—	—	600	529	4	—	533
Loan fee expense	(6)	—	—	(6)	(11)	—	—	(11)
Net loan fee income	594	—	—	594	518	4	—	522
Transaction fee and commission income[3]	8 995	748	—	9 709	7 351	716	—	7 991
Branch, cash and self-service transactions	3 803	7	—	3 810	2 984	5	—	2 989
Digital transactions	898	42	—	940	932	28	—	960
Monthly fees, debit orders and other transactions[1]	3 538	269	—	3 802	2 074	303	—	2 301
POS transactions[1][4]	126	74	—	171	911	25	—	936
Commission income	630	356	—	986	450	355	—	805
Transaction fee and commission expense[3]	(2 496)	(329)	—	(2 796)	(2 142)	(317)	—	(2 432)
Branch, cash and self-service transactions	(1 618)	—	—	(1 618)	(1 372)	—	—	(1 372)
Digital transactions	(267)	(12)	—	(279)	(130)	(167)	—	(297)
Monthly fees, debit orders and other transactions[1]	(468)	(138)	—	(606)	(419)	(137)	—	(556)
POS transactions[1][4]	(108)	(179)	—	(258)	(189)	(13)	—	(175)
Commission expense	(35)	—	—	(35)	(32)	—	—	(32)
Net transaction and commission income	6 499	419	—	6 913	5 209	399	—	5 559
Foreign currency income	—	257	—	257	—	258	—	258
Foreign currency expense	—	(175)	—	(175)	—	(180)	—	(180)
Net foreign currency income	—	82	—	82	—	78	—	78
Insurance revenue	—	—	2 535	2 535	—	—	2 284	2 284
Insurance service expense	—	—	(1 092)	(1 092)	—	—	(1 030)	(1 030)
Insurance service result	—	—	1 443	1 443	—	—	1 254	1 254
Insurance finance income/(expense)	—	—	105	105	—	—	(93)	(93)
Net insurance result	—	—	1 548	1 548	—	—	1 161	1 161
Other income	11	20	46	77	—	15	37	52
Net non-interest income	7 104	521	1 594	9 214	5 727	496	1 198	7 372
Income from operations	14 422	1 211	1 604	17 232	12 152	931	1 201	14 235
Credit impairments	(4 596)	(165)	—	(4 761)	(2 849)	(90)	—	(2 939)
Net income	9 826	1 046	1 604	12 471	9 303	841	1 201	11 296
Operating expenses[1]	(1 508)	(121)	(10)	(1 634)	(1 388)	(102)	(2)	(1 443)
IT expenses[3][5]	(799)	(63)	(18)	(880)	(602)	(46)	(1)	(649)
Employee costs[3]	(2 921)	(492)	(41)	(3 454)	(2 723)	(375)	—	(3 098)
Depreciation	(533)	(34)	—	(567)	(478)	(36)	—	(514)
Amortisation	(55)	(9)	(1)	(65)	(58)	(8)	—	(66)
Amortisation of intangibles – core deposits and client relationships[1]	—	—	—	(7)	—	—	—	(7)
Share of net profit of associates and joint ventures	29	—	—	29	32	—	—	32
Operating profit before tax[1]	4 039	327	1 534	5 893	4 086	274	1 198	5 551
Income tax expense	(1 104)	(87)	(8)	(1 199)	(1 155)	(73)	—	(1 228)
Tax on amortisation of intangible assets[1]	—	—	—	2	—	—	—	2
Profit for the period[1]	2 935	240	1 526	4 696	2 931	201	1 198	4 325

(1) *Consolidation entries not included in either segment.*

(2) *The Retail bank and Business bank assets include an amount of R7.2 billion (August 2022: R4.5 billion) in investments that eliminates against liabilities at group level. Interest on the investments amounted to R240 million (August 2022: R157 million) and is disclosed in the Retail bank interest expense and the Business bank interest on investments.*

(3) *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.*

(4) *Point-of-sale transactions.*

(5) *Information technology expense.*

7. Segment information continued

R'm	August 2023 Retail bank	Business bank	Insurance	Total	August 2022 restated Retail bank	Business bank	Insurance	Total
Assets								
Net loans and advances	**62 894**	**16 071**	**—**	**78 965**	59 606	13 281	—	72 887
Other[2]	**115 050**	**9 929**	**2 861**	**120 644**	105 174	6 704	489	107 964
Acquisition of Mercantile	**—**	**—**	**—**	**894**	—	—	—	908
Goodwill[1]	**—**	**—**	**—**	**849**	—	—	—	849
Intangible asset – core deposit intangible[1]	**—**	**—**	**—**	**37**	—	—	—	48
Intangible asset – client relationships[1]	**—**	**—**	**—**	**8**	—	—	—	11
Total assets[1][2]	**177 944**	**26 000**	**2 861**	**200 503**	164 780	19 985	489	181 759

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

[2] *The Retail bank and Business bank assets include an amount of R7.2 billion (August 2022: R4.5 billion) in investments that eliminates against liabilities at group level. Interest on the investments amounted to R240 million (August 2022: R157 million) and is disclosed in the Retail bank interest expense and the Business bank interest on investments.*

7. Segment information continued

R'm	Retail bank	Business bank	Insurance	Total
	Year ended February 2023 restated			
Interest and similar income				
Interest income	19 822	1 819	7	21 199
Interest income on lending calculated using the effective interest rate	14 382	1 417	—	15 799
Interest income on investments calculated using the effective interest rate	5 031	402	—	4 984
Interest income on financial assets at FVTPL	409	—	7	416
Interest expense[1][2]	(6 621)	(821)	—	(6 993)
Net interest income	13 201	998	7	14 206
Non-interest income				
Loan fee income	1 083	5	—	1 088
Loan fee expense	(9)	—	—	(9)
Net loan fee income	1 074	5	—	1 079
Transaction fee and commission income	15 235	1 442	—	16 562
Branch, cash and self-service transactions	6 723	11	—	6 734
Digital transactions	2 184	67	—	2 251
Monthly fees, debit orders and other transactions[1]	3 388	481	—	3 809
POS transactions[1]	2 005	150	—	2 100
Commission income	935	733	—	1 668
Transaction fee and commission expense	(4 509)	(647)	—	(5 101)
Branch, cash and self-service transactions	(2 860)	—	—	(2 860)
Digital transactions	(286)	(29)	—	(315)
Monthly fees, debit orders and other transactions[1]	(936)	(265)	—	(1 201)
POS transactions[1]	(376)	(353)	—	(674)
Commission expense	(51)	—	—	(51)
Net transaction and commission income	10 726	795	—	11 461
Foreign currency income	—	495	—	495
Foreign currency expense	—	(333)	—	(333)
Net foreign currency income	—	162	—	162
Insurance revenue	—	—	4 854	4 854
Insurance service expense	—	—	(2 067)	(2 067)
Insurance service result	—	—	2 787	2 787
Insurance finance income/(expense)	—	—	(102)	(102)
Net insurance result	—	—	2 685	2 685
Other income	50	29	79	158
Net non-interest income	11 850	991	2 764	15 545
Income from operations	25 051	1 989	2 771	29 751
Credit impairments	(6 121)	(208)	—	(6 329)
Net income	18 930	1 781	2 771	23 422
Operating expenses	(3 258)	(245)	(10)	(3 453)
IT expenses	(968)	(71)	(6)	(1 045)
Employee costs	(5 358)	(851)	(19)	(6 228)
Depreciation	(939)	(71)	—	(1 010)
Amortisation	(114)	(13)	—	(127)
Amortisation of intangibles – core deposits and client relationships	—	—	—	(14)
Share of net profit of associates and joint ventures	98	—	—	98
Operating profit before tax	8 391	530	2 736	11 643
Income tax expense	(2 362)	(141)	7	(2 496)
Tax on amortisation of intangible assets	—	—	—	4
Profit for the period[1]	6 029	389	2 743	9 151

[1] Consolidation entries not included in either segment.

[2] The Retail bank and Business bank assets include an amount of R5.6 billion in investments that eliminates against liabilities at a group level. Interest on the investment amounted to R382 million and is disclosed in Retail bank interest expense and Business bank interest on investments.

7. Segment information continued

R'm	Retail bank	Business bank	Insurance	Total
	Year ended February 2023 restated			
Assets				
Net loans and advances	63 491	14 677	—	78 168
Other[2]	107 143	7 932	2 124	111 568
Acquisition of Mercantile	—	—	—	900
Goodwill[1]	—	—	—	849
Intangible asset – core deposit intangible[1]	—	—	—	42
Intangible asset – client relationships[1]	—	—	—	9
Total assets[1][2]	170 634	22 609	2 124	190 636

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

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

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)]
NF Bhettay (appointed on 7 September 2023)
Z Bulbulia (appointed on 28 March 2023 and resigned effective 24 April 2023)
SA du Plessis
CH Fernandez
N Ford-Hoon (appointed on 7 September 2023)
GR Hardy *(CFO)*[(1)]
MS du Pré le Roux
V Mahlangu
TE Mashilwane (resigning effective 30 September 2023)
NS Mashiya *(executive: risk management)*[(1)]
(resigned effective 31 March 2023)
DP Meintjes (resigned effective 26 May 2023)
PJ Mouton
CA Otto
JP Verster

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