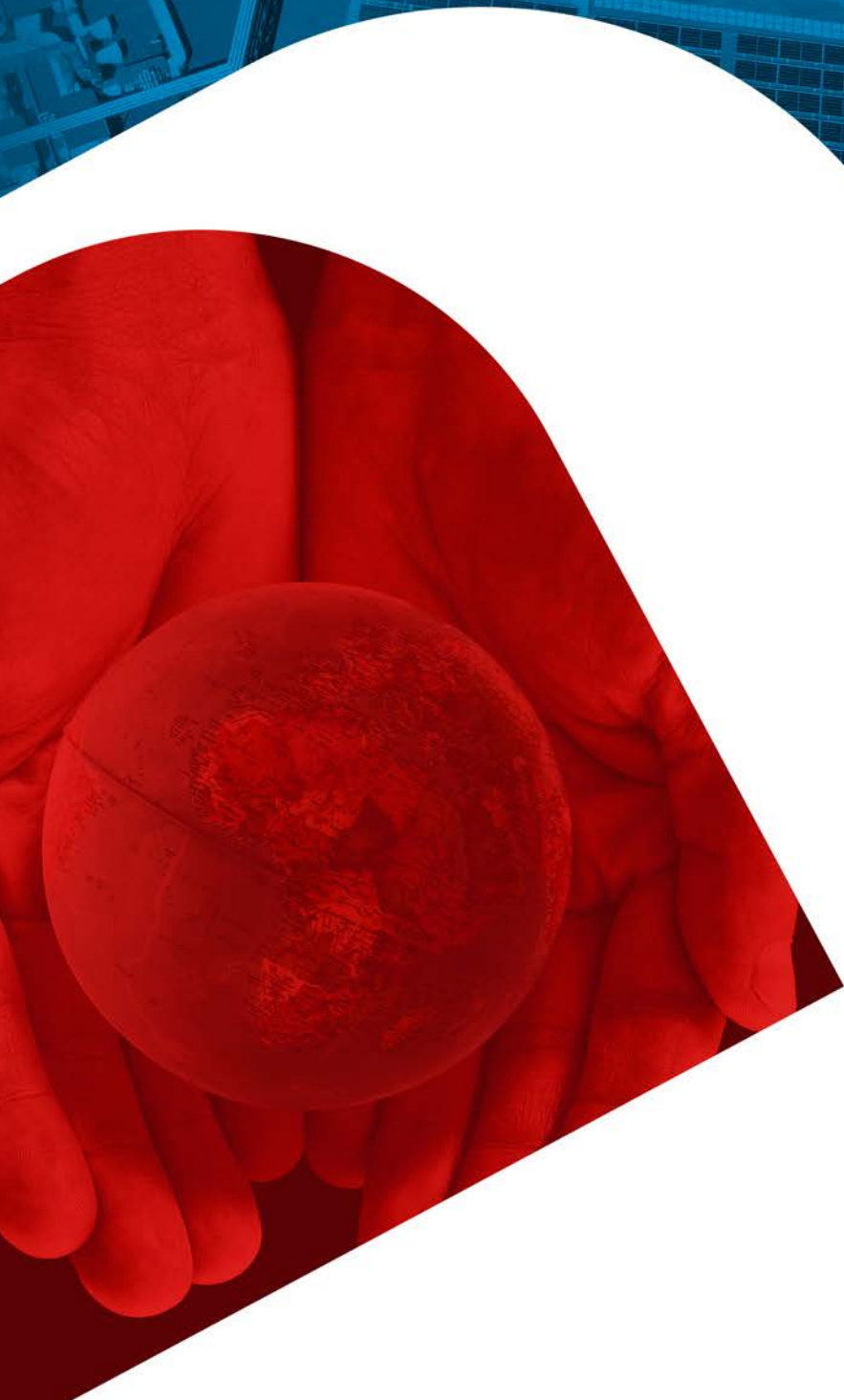


Climate-related Financial Disclosure 2023

our planet, our future



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

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Let's find the solution together!

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**our climate is changing,
and so are we**

Message from the Chief Executive Officer

We care about the impact of our business activities on the environment and society. We therefore integrate environmental, social and governance (ESG) principles in our overall business strategy.

As a bank driven by innovation, our focus has always been to provide simple and affordable banking and financial services to our clients. Our product offering is largely paperless-enabled and relies on technology, which contributes to our low carbon footprint when compared to our peers (refer to industry benchmarking on page 46).

In the past year, our client base grew to 20.1 million, of which 11.4 million are actively using our digital transaction channels.

We are also proud to have installed a large photovoltaic (PV) solar array at our head office in Stellenbosch, generating 506MWh during the 6 months since August 2022 (refer to page 45).

We believe that everything we do must add value and not just be par for the course. It is in this spirit that we assess and treat climate-related risks to join with government, regulators and all our other stakeholders to build a sustainable future.

Some of our clients may be more vulnerable to the effects of climate change (physical and transition risks). We will continue to identify and evaluate existing and emerging climate-related risks, implement appropriate mitigation and adaptation measures to ensure a sustainable and resilient organisation and do our part in protecting our planet and its inhabitants.



As climate risk management becomes more urgent, we acknowledge the increasing expectations from all our stakeholders. It is for this reason that we voluntarily disclose our progress and goals around addressing the impact of climate change.

Gerrie Fourie
Chief executive officer (CEO)

Foreword from the sustainability office

This voluntary climate-related financial disclosure builds on last year's inaugural report. In this edition, we elaborate on Capitec's climate management journey and the progress we have made in the past year.

The 27th United Nations annual climate change Conference of the Parties (COP27), held from 6 to 20 November 2022 in Sharm El Sheikh, Egypt, continued to make progress on a global scale. South Africa is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) as well as the Paris Agreement and is committed to the global effort towards net-zero carbon emissions by 2050. Under the Paris Agreement, South Africa tabled a revised Nationally Determined Contribution (NDC) to the UNFCCC with more ambitious carbon dioxide equivalent (CO₂e) reduction targets. Considering that South Africa is the 12th largest greenhouse gas (GHG) emitter globally (JSE, 2022), we are highly exposed to risks relating to the transition of the global economy towards net zero and decarbonisation. The national plan is therefore essential for South Africa to remain competitive in the global economy while contributing our fair share to combat global warming.

The World Economic Forum's Global Risks Report 2023 shows environmental risks dominating the top 10 list of risks in both the short (2-year) and long (10-year) term. This is echoed in the World Bank's 2021 Climate Risk Country Profile report, which shows South Africa's vulnerability to climate change and other global challenges, and its readiness to improve resilience, continuing to deteriorate since 2016. This comes at a time when investors are increasingly focusing on ESG and considering the extent to which current and prospective investees are positioned to manage their climate-related risks and opportunities amid the transition towards a low-carbon global economy. For this reason, Capitec will consider science-based targets to improve our quantitative target-setting and disclosure. We aim to align our business strategy to the Intergovernmental Panel on Climate Change's (IPCC) overall goal of limiting the increase in global average temperature to well below 2°C above pre-industrial levels, while aiming to limit the increase to 1.5°C above pre-industrial levels.

Support for the Task Force on Climate-related Financial Disclosures (TCFD), as the leading framework for climate disclosure, has grown and Capitec will continue to align our climate-related financial disclosure to the TCFD framework.

The social, ethics and sustainability committee (SESCO) increased its focus on climate risk, and a sustainability committee was created to support the implementation and execution of climate-related risk management measures.

The South African Reserve Bank (SARB) will play an important role in setting standards and requirements by means of regulation and has indicated that climate risk will be a focus area for prudential oversight during 2023.

Looking forward, we are cognisant of credit rating agencies considering ESG performance in their credit rating assessments.

We understand that investors, as well as the public and civil society at large, increasingly hold businesses, especially listed entities, accountable to demonstrate responsible corporate citizenship. It is also expected that clients will increasingly consider a company's climate change risk mitigation contributions in their selection of products and services and the providers thereof. We therefore understand that it is imperative that we continue to improve our disclosure of relevant information.

We continue to monitor the global transition from carbon-intensive consumption to greener alternatives and the extent to which the process follows an orderly or disorderly trajectory. Internally, Capitec currently focuses on reducing our GHG emissions before we will consider offsetting.

Capitec understands the risk that climate change poses to humanity and our planet. We therefore remain committed to contributing meaningfully to ensure a sustainable existence for present and future generations.

Our climate journey

Climate journey progress since 2022	Achievements
Governance Compile and publish the first climate-related financial disclosure report during 2022	First climate-related financial disclosure published in May 2022
Strategy Improve engagement with ESG rating agencies and participation in their ESG risk rating questionnaires	Participated in the S&P Global Corporate Sustainability Assessment (CSA) 2022 which saw Capitec's environmental dimension score improve by 22%, and our overall score improve by 23%
Demonstrate the integration of climate risk into our overall business strategy	Refer to page 16
Improve industry participation through Banking Association South Africa (BASA)	Capacity created for active participation in the next year
Metrics and targets Improve and expand on how we measure and monitor climate-related risks and opportunities as guided by the SARB, the Johannesburg Stock Exchange (JSE) Climate Disclosure Guidance and the TCFD recommendations	Facilitated an external review of internal carbon accounting practices and implemented proposed improvements

Additional achievements over the past 12 months

- Established an internal sustainability committee
- Comprehensive sustainability training for key members of the sustainability office
- Internal capacity-building and skills development
- Sustainability-linked key performance indicators (KPIs) for the executive management team approved by the remuneration committee (REMCO) for implementation in the next financial year
- Joined the National Business Initiative (NBI).

While we have made a lot of progress in the past year, there is still more work to do. We believe that by continuing to work together and prioritising sustainability, we can help to ensure a greener tomorrow for future generations.

Preamble

This climate-related financial disclosure represents Capitec Bank Holdings Limited, listed on the JSE, and its 100%-owned and controlled subsidiaries, including Capitec Life, Capitec Bank and Capitec Rental Finance.

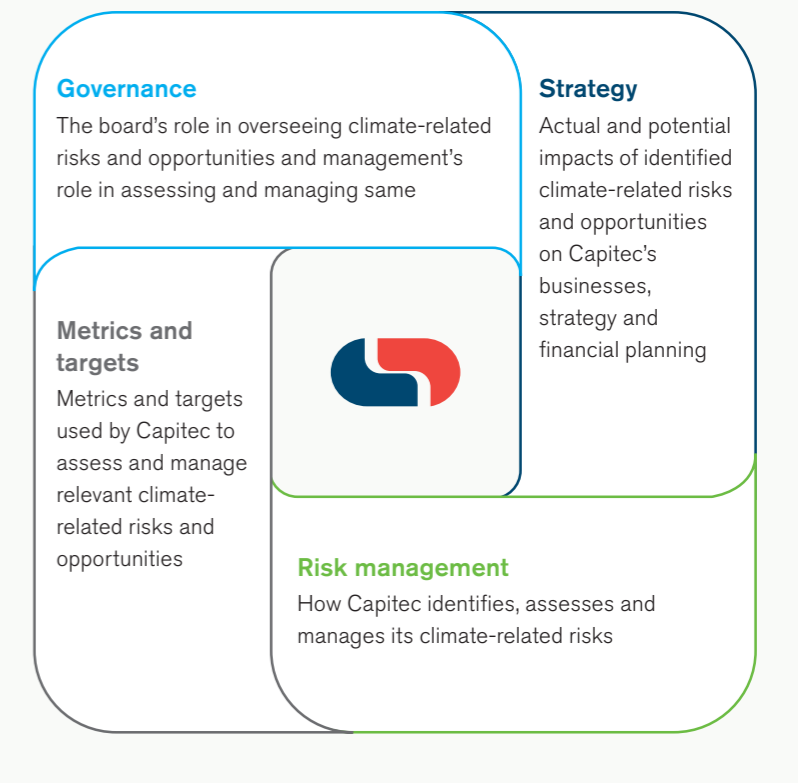
This is Capitec's second stand-alone climate-related financial disclosure report. We continue to improve and expand our climate-related reporting towards full alignment with the recommended disclosures and requirements of the TCFD framework.

Assurance statement

Our SESCO provides oversight of this report. No third-party assurance was provided on any data in this report.

How to read this report

The remainder of the report covers 4 thematic areas core to how organisations disclose climate-related risks and opportunities, namely governance, strategy, risk management and metrics and targets. In these sections, Capitec sets out its approach to managing climate-related risks and opportunities where the relevant processes and structures have already been implemented or are still in the process of being implemented.



Realities of climate change

Evidence
How do we know climate change is real?

While Earth's climate has fluctuated throughout its history, there is consensus in the climate science community that the unprecedented rate of warming that we are currently experiencing is principally caused by post-industrial era human activity, primarily through GHG emissions.

Information from natural sources (ice cores, rocks and tree rings) all show a significant increase in CO₂, which correlates with a rise in temperature over the same period.

The greenhouse effect is essential to life on Earth, but a significant increase in human-made emissions observed since the mid-20th century is trapping and slowing heat loss to space.

Causes
Why is climate change happening?

Effects
What are the effects of climate change?

The effects of human-caused global warming are currently occurring and will worsen if humans continue to add GHGs to the atmosphere:

- Extreme weather events and droughts have become more frequent and more intense
- The sea level has already risen about 20cm due to melting land ice since record-keeping began in 1880
- Plant life cycles and animal migration patterns are changing.

We need to act now and implement sustainable practices to reduce risks to our environment and our communities, such as:

- Increase energy efficiency and the use of renewable energy
- Conserve and protect water resources through efficiency and reuse
- Increase recycling.

Solutions
What is being done to solve climate change?

Under climate change, South Africa faces risks to food production, increased heat extremes and droughts, changes to vegetation and the risk of species extinction, with the poor and most vulnerable expected to be hit the hardest first.

The Centre for Environmental Rights September 2021 report titled *Climate Impacts in Southern Africa During the 21st Century*, focuses on how long-term weather patterns, agriculture and food security, water availability and biodiversity could be impacted. It emphasised how Southern Africa is particularly vulnerable to the physical impacts of climate change because of its geographical location and socio-economic development state, with warming in the interior regions occurring at about twice the global average rate.

The report also concludes:

- Substantial changes in the number of extreme temperature events leading to increases in events such as heatwaves, high fire-danger days and extreme temperatures impacting human comfort and health

- A high likelihood that agricultural production in Southern Africa will be reduced and eventually collapse under low-mitigation futures, while livestock production, including meat and milk, could also become economically unviable
- Fresh water availability, already critically limited in Southern Africa, will be reduced in the future because of decreasing rainfall and increasing evaporation
- The risk of severe storms, including intense tropical cyclones and very intense thunderstorms, long-term droughts and heatwaves will increase with climate change in Southern Africa. As a result, loss of life, injury and damage to infrastructure will also increase
- Thousands of species, many only inhabiting Southern Africa, are at increased risk of premature extinction because of human-caused climate change. This loss has negative consequences for human well-being and the economy, as well as weakening the capacity to adapt to climate change.



humans are the only creatures on Earth that will cut down a tree, turn it into paper, then write “save the trees” on it

Importance of the TCFD

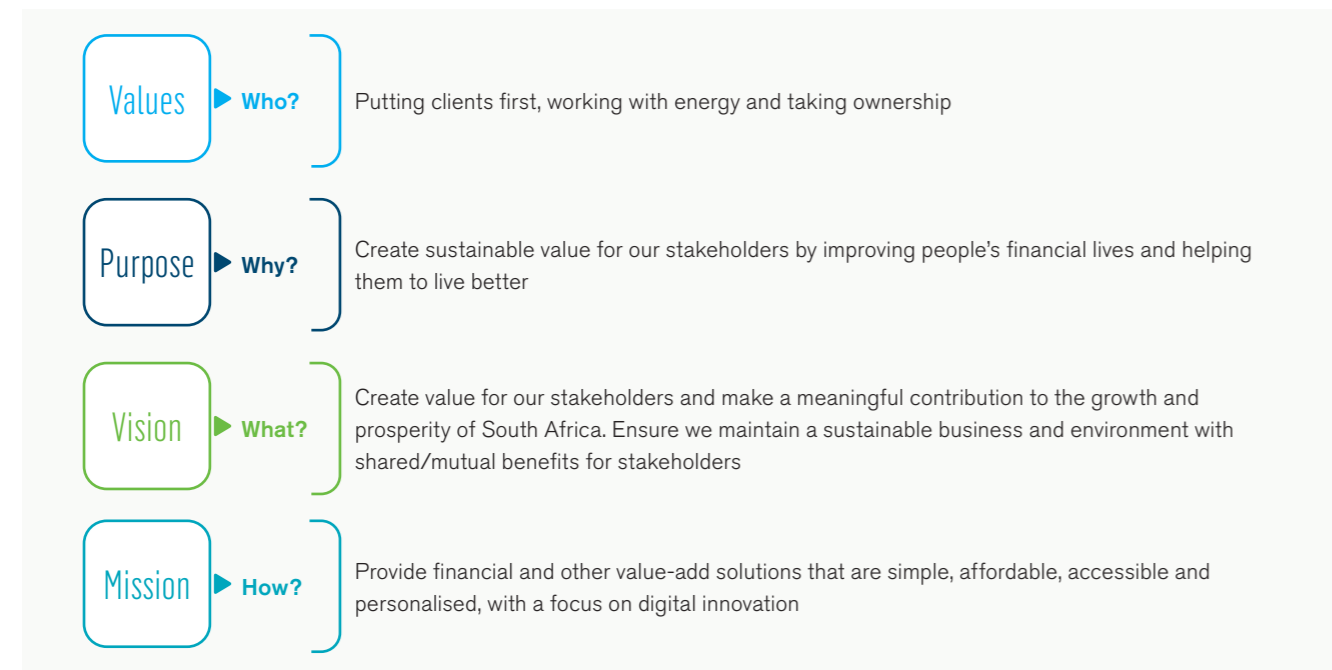
The Financial Stability Board instituted the TCFD in 2015 to establish a globally accepted framework for climate-related disclosures to allow for more consistent and comparable reporting across industries and jurisdictions. What began as a voluntary set of recommendations has quickly become the preferred regulatory disclosure standard in many jurisdictions including the European Union, Singapore, Canada and Japan.

With growing expectations from various stakeholders for businesses to address global climate change, the pressure on businesses to act on the TCFD recommendations is expected to increase going forward. Capitec, therefore, aims to align with the TCFD recommendations over the next 2 to 3 years to demonstrate how we incorporate climate-related risks and opportunities into risk management, strategic planning and decision-making and also to demonstrate our commitment towards being a responsible corporate citizen.

As a responsible corporate citizen, Capitec commits to:

- sound corporate governance principles, based on transparency, to secure us as a sustainable business well into the future
- driving business strategies that reduce or remove the negative impact on the environment, society and economy, while increasing its positive contribution
- following robust risk management practices to identify, evaluate and manage climate-related risks
- implementing metrics and targets to monitor progress made towards reducing our carbon footprint.

These commitments are underpinned by the foundational principles Capitec prides itself on, driving it towards a sustainable future.



While this report is not yet fully aligned with the TCFD framework (refer to Annexure A), Capitec is committed to maturing its alignment thereto. Further work is already underway to improve and expand our reporting, especially in relation to science-based emissions target-setting and our transition plan.

01

governance



Governance continued

Regulatory landscape

This report was compiled within the ambit of the following frameworks and legislation:

- Draft Climate Change Bill B9-2022

To enable the development of an effective climate change response and a long-term, just transition to a climate-resilient and low-carbon economy and society for South Africa. The Climate Change Bill was formally introduced to parliament on 18 February 2022. The Bill is currently under consideration by the National Assembly after extensive public consultation.

The Bill, when effected, will require the Minister of Forestry, Fisheries and the Environment to, within 1 year from the effective date, publish a list of the GHG gas-emitting sectors and sub-sectors that will be subject to sectoral emissions targets. We expect further regulatory expansion and will continue to monitor developments as this ultimately aims to set South Africa's GHG emissions trajectory in line with the NDC goals.

- Nationally Determined Contribution

In line with the Paris Agreement, South Africa submitted its updated NDC in 2021, indicating a steeper decline in CO₂ emissions from 2025 compared to the previous NDC.

- Draft International Financial Reporting Standards (IFRS) S2 Climate-related Disclosures

The International Sustainability Standards Board (ISSB) published the Draft IFRS S2 Climate-related Disclosures to establish more consistent, complete, comparable and verifiable financial reporting of climate-related matters. The draft has the TCFD framework as its basis. The ISSB aims to publish the final iteration at the end of quarter 2 of 2023 on conclusion of its public consultation process. IFRS S2 Climate-related Disclosures is expected to become effective for annual reporting periods beginning on or after 1 January 2024.

- The JSE's Climate Change Disclosure Guidance, published in June 2022

This paper was issued only as a guidance tool that may be used by issuers on a voluntary basis. It does not constitute any disclosure or reporting obligations. Capitec uses this as a reference point for reporting.

- King IV™ Guidance Paper, Responsibilities of Governing Bodies in Responding to Climate Change, published in July 2021

The King IV™ Guidance Paper provides boards with valuable guidance on climate-related reporting and broader ESG reporting in the context of the King IV Report on Corporate Governance for South Africa, 2016™ (King IV™).

- SARB Prudential Authority (PA) oversight

The SARB PA, in its communication 10 of 2022 on climate-related risks dated 3 August 2022, affirmed its view on climate-related risks and their potential impact on financial institutions under its supervision. In providing supervisory direction towards regulatory standards, reference was made to the Basel Committee on Banking Supervision Principles for the Effective Management and Supervision of Climate-related Financial Risks, published for consultation in June 2022, as well as guidance papers published by the Network of Central Banks and Supervisors for Greening the Financial System.

The SARB PA also communicated that Climate Risk will be a focus area for prudential oversight during 2023.

- South African Green Finance Taxonomy, first edition

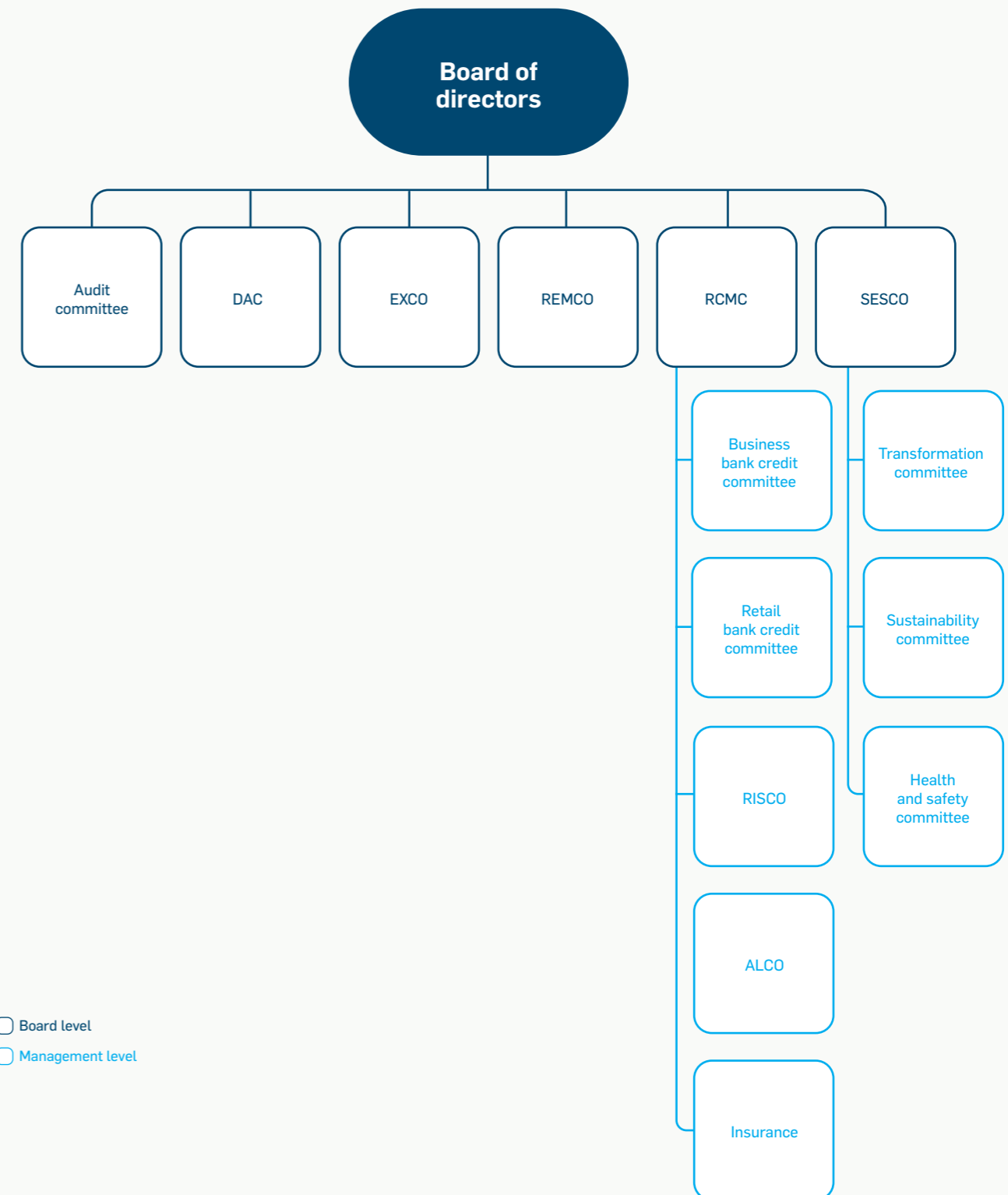
National Treasury released South Africa's Green Finance Taxonomy (GFT) in April 2022. It is designed for investors, issuers, lenders and other financial sector participants to track, monitor and demonstrate the credentials of their green activities. It does this via a classification system that defines a minimum set of assets, projects and sectors that are eligible to be defined as 'green' or environmentally friendly.

Capitec intends on using the GFT to:

- identify appropriate financial investment opportunities
- evaluate existing product and service offering alignment, as well as any new products or services being developed.

Sustainable leadership

The key to a sustainable business is the collaborative relationship between its board and management. While management identifies risks and opportunities to evaluate, manage and report, as appropriate, the board oversees the work of the company and associated data, policies, strategies and goals. When this partnership works well, sustainability initiatives become fully integrated into our overall business strategy.



- Board level
- Management level

Governance continued

Board of directors

The board of directors (the board) has the ultimate responsibility to ensure Capitec operates responsibly and sustainably. This includes monitoring the identification, evaluation and management of climate-related risks and opportunities. In doing so, board oversight of sustainability-related matters is supported by several board-appointed committees, such as the group executive committee (EXCO), risk and capital management committee (RCMC) and SESCO.

Board committee	Charter highlights/ climate considerations	Frequency of meetings	Board representation
EXCO	<ul style="list-style-type: none"> Operational decision-making Implementation of board-approved strategic decisions 	Monthly	3 x executive directors (CEO, chief financial officer (CFO), chief risk officer (CRO)) ¹
RCMC	<ul style="list-style-type: none"> Evaluation of the adequacy and efficiency of risk and capital management systems and processes and the key risks facing Capitec (ESG risk including climate change risk) are monitored through the RCMC key risk report 	Quarterly	3 x independent non-executive directors 2 x non-executive directors 3 x executive directors (CEO, CFO, CRO)
SESCO	<ul style="list-style-type: none"> Monitoring activities relating to social and economic development, good corporate citizenship and the environment Tracking the impact of the group's activities and services Setting strategic objectives for sustainability and the monitoring of ESG management (which includes climate-related risks and opportunities) 	Biannually	3 x independent non-executive directors 1 x executive director (CRO)

Note 1: The following responsibilities have been assigned to executives by the SESCO:

- Gerrie Fourie, our CEO, is responsible for Capitec's overall strategy. He ensures that climate risk management is integrated with the business strategy and that the strategy also yields positive climate change risk mitigation outcomes
- Nkosana Mashiya¹, our CRO, is responsible for ensuring that risks are duly managed and reported to the relevant board committees
- Grant Hardy, our CFO, is responsible for the accurate disclosure and reporting of information in the public domain. In this context, investors have recently shown an increased interest in climate change risk and have requested increased disclosure to inform their clients and stakeholders accordingly.

¹ Our CRO resigned from the board and as a member of the SESCO effective 31 March 2023.

The skills matrix below summarises the qualifications and expertise of our directors.

Director	Independent/Non-independent/ Executive	Board tenure (years)	Risk management	Banking industry	ESG expertise
SL Botha	Independent	3.8	●	●	SG
SA du Plessis	Independent	2.5	●		EG
GM Fourie	Executive	9.5	●	●	G
CH Fernandez	Independent	2.5	●		G
GR Hardy	Executive	<1	●	●	G
MS du Pré le Roux	Non-independent	23	●	●	G
V Mahlangu	Independent	2.5	●		G
TE Mashilwane	Independent	3	●		SG
NS Mashiya	Executive	6.8	●		G
DP Meintjes	Independent	4.3	●		ESG
PJ Mouton	Non-independent	15.5	●	●	G
CA Otto	Non-independent	23	●	●	G
JP Verster	Independent	8	●		G

Extract from the full version which is available in the integrated annual report.

Committee members are presented with ESG and climate-related issues at each meeting. These routinely include associated risks and opportunities, strategy implementation progress and short- and medium-term action items.

Our focus for the 2024 financial year, as detailed in our strategy presentation to the EXCO and SESCO, will be:

- improving our public disclosures in a meaningful way
- expanding the scope of our carbon accounting, in particular, Scope 3 financed emissions
- embarking on our journey towards setting science-based emissions targets and using this as a basis for drafting a transition plan
- exploring operational efficiencies
- further alignment to the TCFD reporting framework
- preparing for the SARB 2024 Common Scenario Stress Test (CSST)

- internal education and an awareness campaign
- key risk indicators (KRIs) on the management operating system (MOS).

To support delivery on our business plan, sufficient budget has been approved for additional capacity and knowledge building, consultancy fees where required, broadening the scope of ESG ratings participation and GHG emissions target-setting.

At board level, the primary responsibility for monitoring climate-related risks lies with independent non-executive directors, Stan du Plessis (chairman of the RCMC) and Danie Meintjes (chairman of the REMCO), with governance and oversight primarily delegated to the SESCO. Strategy implementation is governed by senior management, in particular, members of the sustainability committee who report to the SESCO.

Management

The CEO takes ultimate executive responsibility for all climate-related and sustainability matters. He is supported by several management committees, most notably the credit committees, risk committee (RISCO) and the sustainability committee.

Management committee	Charter highlights/climate considerations	Frequency of meetings	Highest position represented
Business bank credit committee	Oversight of the credit strategies and objectives, and credit risk management, including credit policy and reviewing the quality and performance of the credit portfolio	Monthly	3 x executive directors (CEO, CFO, CRO)
Retail bank credit committee		Monthly	3 x executive directors (CEO, CFO, CRO)
RISCO	Considers risks, including climate-related risks, which could have an impact on the business	Bimonthly	3 x executive directors (CEO, CFO, CRO)
Sustainability committee	Assists the SESCO in developing its strategy, standards, processes and approach to ESG and ethics-related matters that could affect Capitec's business activities, assets, performance and reputation and monitors the implementation and execution of climate-related risk management measures and the ethics policy	Biannually	Head: operational risk (reports into the CRO)

At the November 2022 meeting, the REMCO approved changes to the remuneration policy to include sustainability KPIs for executives. It was decided to follow a holistic approach that is not limited to climate, but includes measures across all areas of sustainability. We believe this will ensure that sustainability matters (which include all ESG dimensions) are effectively addressed throughout the business. Targets will be set annually and will include transformation, diversity, equity and inclusion, and the effective management of Capitec's environmental footprint. At the end of the year, the REMCO will assess executives' level of performance to determine the monetary short-term incentive payment to be made. Failing to reach personal performance targets could warrant a 50% or no bonus.

Capitec currently does not reward ESG performance with any non-monetary incentives. Executives are also currently the only employee group eligible for ESG-related incentives.

Sustainability committee

The sustainability committee is the primary management committee responsible for the identification, assessment, monitoring and management of climate-related risks and opportunities, and the implementation of appropriate mitigation and adaptation strategies. This committee is chaired by the head: operational risk, who presents a report to the SESCO biannually. Its inaugural meeting was convened on 19 October 2022.

The sustainability committee comprises the following members of management:

- Chairperson: head: operational risk
- Secretary: manager: operational resilience and ESG oversight
- CRO: insurance
- Group company secretary
- Executive: capitec insurance
- Head: compliance
- Head: csi and financial education
- Head: secured credit (Business bank)
- Head: talent acquisition and assessments
- Manager: credit employer intelligence (Retail bank)
- Special project engineer
- Treasurer.

3 members are invited and expected to attend all SESCO meetings to facilitate the effective functioning of the committee.

Although the sustainability committee meets formally twice a year, multiple informal workshops are convened throughout the year with members to ensure strategy implementation remains on track and to address any potential blockers. An update is also included in the document pack of the monthly EXCO and the bimonthly RISCO meetings. Updates routinely include associated risks and opportunities, strategy implementation progress and short- and medium-term action items.

Institutional knowledge and experience

To improve internal climate risk management capabilities, members of the sustainability office in the past year successfully completed Oxford University's Corporate Sustainable Leadership Programme and the Global Association of Risk Professionals' (GARP) Sustainability and Climate Risk (SCR) Certificate.

Additional internal capacity was also created for the management of ESG-related risks to monitor regulatory developments and requirements and to actively participate in climate-related industry forums and initiatives.

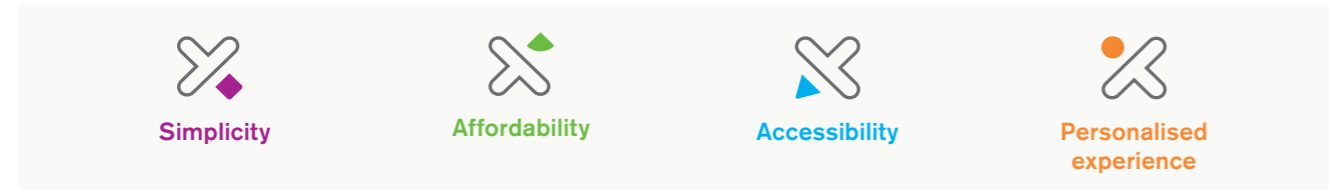
strategy



Strategy continued

Capitec's strategic approach

Capitec's business strategy is based on 4 core pillars:



Capitec sees climate change as both posing novel risks, but also creating business opportunities. Our approach to managing climate-related risks is therefore founded on the implementation and execution of appropriate adaptation and mitigation measures, and to leveraging climate-related opportunities, expanding our innovative product offering as part of our overall business strategy. Our intention is therefore not to develop separate strategies for ESG and climate change, but rather to integrate ESG and climate change considerations into our overall business strategy by linking them to the Sustainable Development Goals (SDGs) which are demonstrated in the table below.

Strategic objectives	1 NO POVERTY	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	13 CLIMATE ACTION
Business bank							
Enable clients to take up additional products on digital channels							•
Launch new remote onboarding capability, online banking and mobile app							•
Optimise employee home loan experience	•						•
Co-create action plans to ensure we create an environment where our employees can thrive							•
Co-create action plans to ensure we focus on hearing the voices of our employees		•					•
Insurance							
Launch Capitec Life Cover product	•		•				•
Add WhatsApp channel for claims on the funeral product	•						•
Joint value proposition with emerging markets	•					•	•
Create high performing cohesive team				•	•	•	
Retail bank							
Improve client behaviour – cash to electronic							•
Digitisation of credit granting and treatment							•
Improve client credit health	•						
Purpose lending							•
Non-salary/multiple-income lending	•						
Balance employee well-being and performance		•					•
Invest in the development and growth of our people			•			•	
Unlock diversity, equity and inclusion				•			•
Shared services							
Complete the Amazon Web Service (AWS) migration							•
Implement Garmin Pay and ClicktoPay, and drive the adoption of Apple Pay, Google Pay and Samsung Pay							•
Attract the very best talent and create a great employee experience that aids employee retention			•			•	
People development (unlock full potential) and succession planning	•		•			•	
Empower our employees and communities through financial education, maths at high school level and meaningful community investment initiatives	•		•				
Grow our people and build new capabilities for the future with a focus on leadership, data and technology			•			•	
Nurture our culture that is diverse, inclusive, healthy and safe				•			•

Extract from the full version of strategic objectives which is available in the integrated annual report.

Time horizons

When considering climate-related risks and opportunities, Capitec uses the following time horizons:

Time horizon	Start year	End year	Explanation for the choice of time frame
Short term	0	< 3 years	Largest part of our credit book consists of short-term credit
Medium term	3	< 7 years	Maximum personal loan term is 84 months, and period to 2030, in line with South Africa's planned carbon trajectory
Long term	7	7+ years	The period to 2050, in line with the Paris Agreement time frames

Note: Climate-related risks often manifest themselves over the medium and longer terms.

Climate-related risks and their impact on business strategy and financial planning

Climate change can impact organisations through 2 distinct transmission channels – macro- and micro-economic transmission channels. Firstly, they may suffer from the economic costs and financial losses resulting from the increasing severity and frequency of physical climate risk events. Secondly, as economies seek to reduce GHG emissions, transition risk drivers follow. Capitec continues to closely monitor its exposure to adverse weather events and sectors more vulnerable to transition risks; to timeously implement appropriate mitigation and adaptation strategies to minimise risk and optimise opportunities.

But with change, comes opportunity. New economic opportunities in electric vehicle manufacturing, hydrogen (H₂) supply and H₂-based manufacturing and green commodities have the potential to develop alternative sectors of the economy and society to address current levels of unemployment, poverty and inequality.

As part of Capitec's risk management process, it intends to expand on its ability to identify climate-related risks and opportunities through tracking same at sectoral level. Understanding which sectors contribute the most to emissions and global warming, and therefore increase risk exposure, and which sectors pose decarbonisation opportunities, will be helpful in informing Capitec's business strategy going forward.

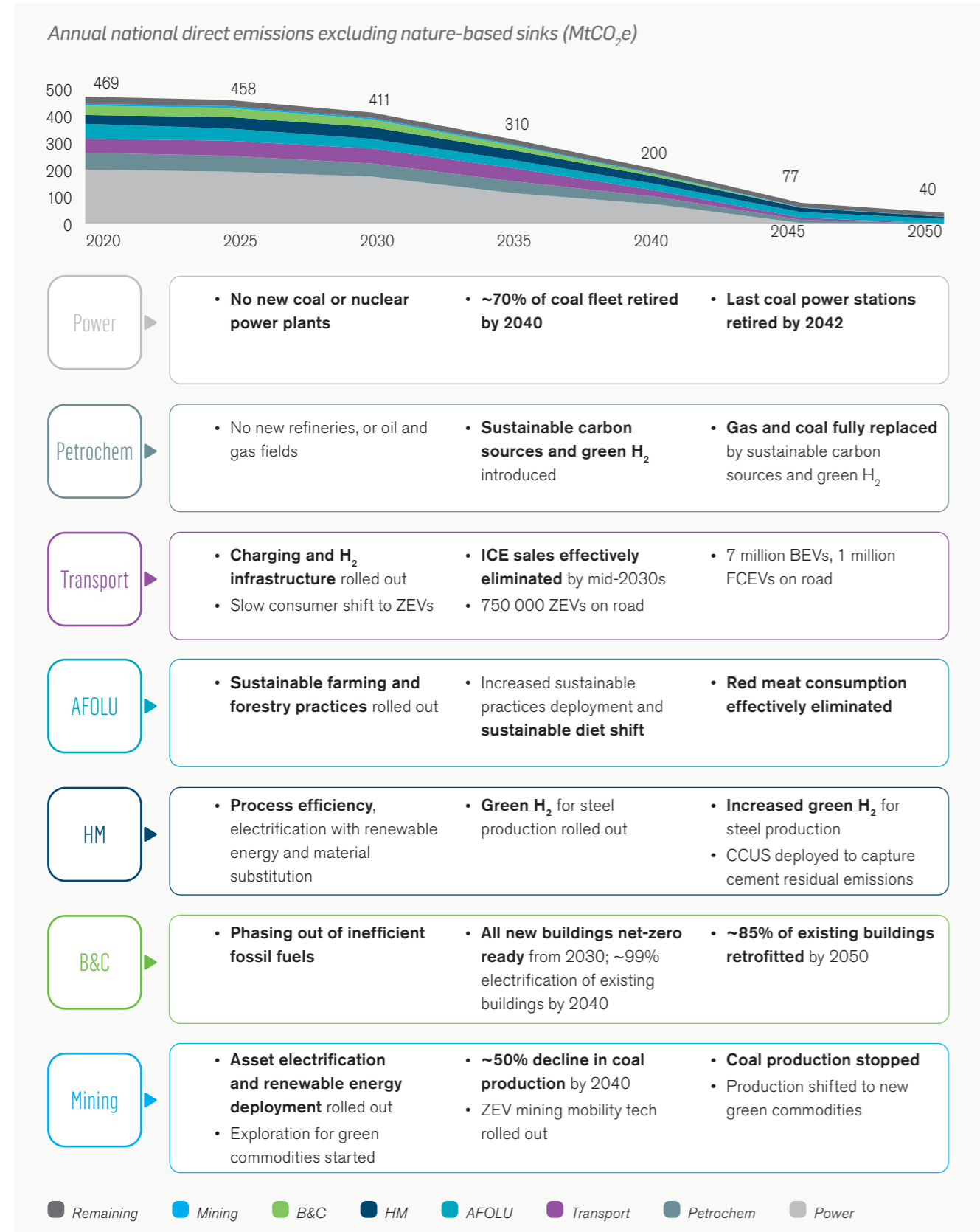
Work in progress to expand on Capitec's sectoral climate-related risks

The NBI's research helps us to understand that reaching net zero by 2050 is a major challenge for South Africa, especially for sectors like energy (electricity generation), transport, infrastructure and large parts of industry. These changes will inevitably have socio-economic impacts as well.



Strategy continued

Below is a high-level roadmap for South Africa which summarises key milestones per sector towards a net-zero economy by 2050.



Source: National Business Initiative, 2022. South Africa's Net-zero Transition

Climate-related risks in financing and investment activities

Through Capitec's risk management process, several climate-related risks due to its financing and investment activities, have been identified. The table below sets out each individual risk and its impact from a strategy and financial planning perspective.

Risk category	Risk definition	Physical risk	Transition risk	Impact on strategy and planning
Credit risk	Inability or failure of a borrower or counterparty to meet their repayment obligations	<ul style="list-style-type: none"> Disruption of client operations and supply chains impacting clients' cash flows and ability to service debt Physical property or infrastructure damage resulting in decreased asset collateral values leading to higher probability of default and loss given default 	Financial impacts to client revenue, income, cash flow, assets or collateral due to higher transition costs and shifting consumer demand as well as potential for stranded assets leading to higher probability of default and loss given default	<ul style="list-style-type: none"> Assess physical and transition risks per industry and geography and adjust credit policy accordingly Extensive use of the CSST to identify and timeously address credit book vulnerabilities
Market risk	Changes in market conditions adversely impacting the value of assets or liabilities, or otherwise negatively impacting earnings	<ul style="list-style-type: none"> Impact on asset valuations Transmitted through general macroeconomic or industry-specific impact 	Differentiated market pricing based on climate characteristics of the underlying security	Incorporate climate risk considerations into new product reviews and finance and investment decision processes
Capital and liquidity risk	Inability to meet expected or unexpected cash flow and collateral needs while continuing to support the business and its clients under a range of economic conditions	<ul style="list-style-type: none"> A run on deposit balances, unexpected increases in unfunded commitments and a decrease in access to funding providers Transmitted through general macroeconomic or industry-specific impact 	Impact of clients needing more liquidity to fund capital expenditures and other investments in response to climate-related changes	<ul style="list-style-type: none"> Identify sources of capital and liquidity risk and continue to monitor KRIs to act as early warning mechanisms Maintain conservative liquidity management practices Leverage industry risk assessments to monitor concentrations in funding sources and potential funding uses

Strategy continued

Risk category	Risk definition	Physical risk	Transition risk	Impact on strategy and planning
Operational risk	Loss resulting from inadequate or failed internal processes or systems, people or external events	Disruption of own operations through damage to physical assets, supply chain interruptions or occupational health and safety events, impacting ability to deliver important business services	Higher costs and possible operational disruptions due to the transition of own operations to lower-carbon infrastructure Third-party and outsourced risks should these parties' practices not meet set industry standards Risk of 'green-washing'	Enable internal stakeholders to identify and address climate-related risks within their areas Ensure sufficient insurance in place for physical assets, especially those more vulnerable to physical risks Continued monitoring of new and amended regulations and policies Active industry forum participation
	Compliance, legal or regulatory sanctions, material financial loss or damage to the business' reputation arising from the failure to comply with the requirements of applicable laws, rules and regulations (current and emerging) or internal policies and procedures	Workplace disruptions' impact on ability to comply with internal policies and procedures	Current and emerging requirements for classification and disclosure Legal risk due to changing regulations Increased cost of compliance	Established risk functions (compliance and legal) to oversee climate-related regulatory monitoring, interpretation, implementation and response
Business risk	Current or projected financial impact arising from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments in which the business operates	Client spending shifts towards providers of greener products and services	Impact of inability to quickly adapt and execute strategy to address changing regulatory requirements, client demands (move to low-carbon products) or the competitive environment	Ongoing scenario analysis to adapt strategy planning to different trajectories

Risk category	Risk definition	Physical risk	Transition risk	Impact on strategy and planning
Reputational risk	Negative perception of the business may adversely impact profitability or operations	Impact of perceived inadequate management of climate-related risks	Impact of negative perceptions regarding financing of high-emitting industries or ability to achieve climate commitments Increased consumer activism	Maintain transparency over climate-related risks and opportunities Regular engagement with stakeholders Actively participate in ESG rating questionnaires Corporate social investment (CSI) to focus on sustainability Continuously monitor stakeholder expectations and concerns Expand product offering to include green products aligned to clients' demands and expectations



Strategy continued

Climate-related risk time horizons

As part of Capitec's risk management process, it considers various risk factors, such as climate change and natural resource availability, which emerge slowly over the long term, but could have a material impact on business activities.

The table below summarises the various climate-related risks Capitec monitors, categorised according to the time horizons during which they are expected to manifest.

Short term (0 – 3 years)	Medium term (3 – 7 years)	Long term (7+ years)
Policy and regulations		
Increased pressure on carbon neutrality within operations, including carbon tax and net-zero ambitions within business activities, enforced through the requirements of applicable laws, rules and regulations (current and emerging). Increased oversight by the SARB and the PA	Additional mandatory requirements for climate disclosure and impact on financial accounts, for example, IFRS disclosure requirements	Additional mandatory disclosures and minimum standards on green credentials or certification on product offerings
Technology development		
Substitution of technology to cleaner alternatives	Increased risk of financing legacy technologies	Inaction to move towards cleaner alternatives will lead to stranded assets
Market risk		
Competitor entrance with innovative sustainable financial product offerings	Delayed entrance of own innovative sustainable financial product offerings	Increased costs and volatility in prices for carbon-heavy products and materials
Reputation		
Increased concern on greenwashing in product offerings and disclosure and increased consumer activism	Increase in stakeholder pressure due to delayed action towards emissions reduction	Increase in stakeholder pressure due to inaction towards emissions reduction
Acute physical risk		
Business disruption and asset depreciation. Severe weather can disrupt supply chains which impacts production capabilities of downstream businesses	Clients' profitability may decrease. Impact on prices and availability across the value chain, including knock-on effects from suppliers, distributors, infrastructure and access to clients Increased insurance costs	Clients' profitability may decrease. Higher risk of real estate assets located close to the coastline
Chronic physical risk		
Clients' profitability may decrease. Impact on prices and value chain	Clients' profitability continues to decrease. Growing impact on prices and value chain	Clients' profitability continues to decrease. Growing impact on prices and value chain

Although we have identified several climate-related risks and their expected time horizons, we have not yet quantified their potential for generating substantive changes in our business operations, revenue or expenditure.

We are also still in the process of developing context-specific mitigation plans for location-based physical climate-related risks.

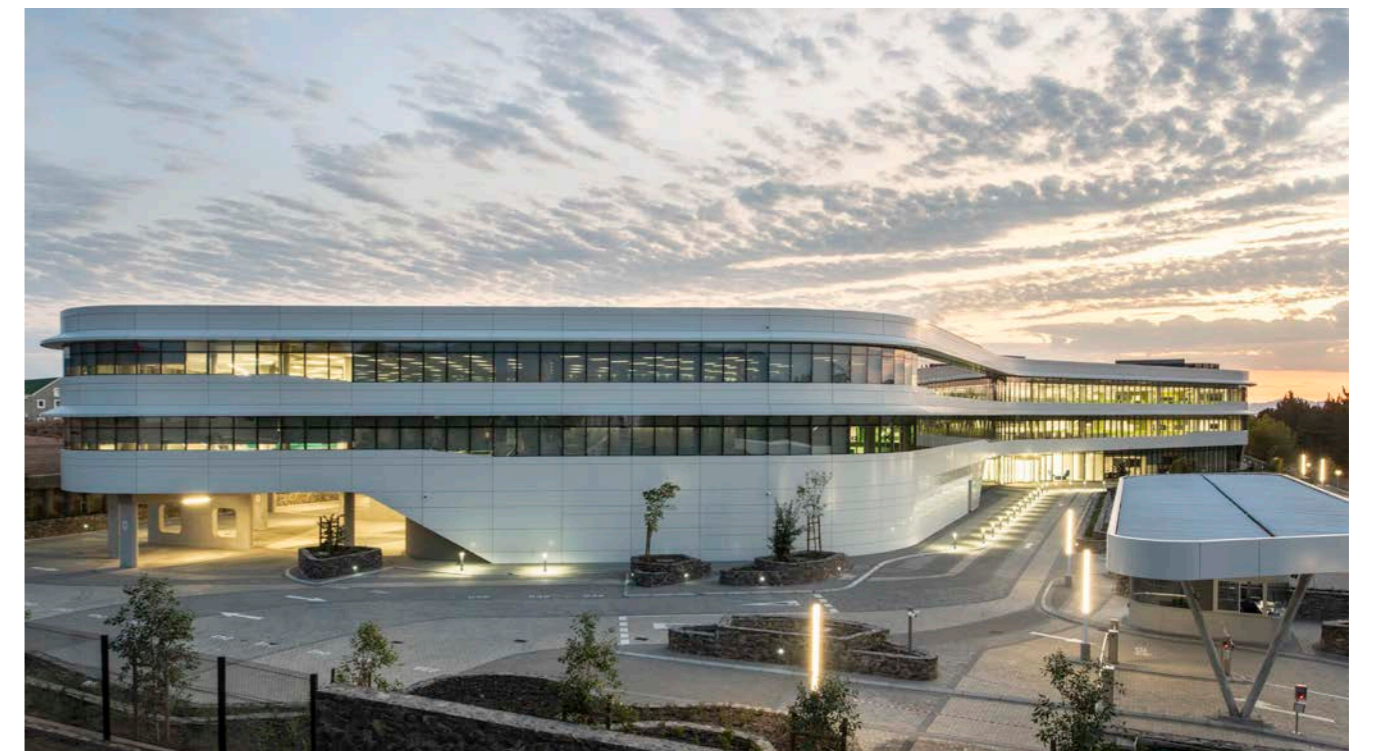
Mitigation and adaptation

Capitec's enterprise risk management (ERM) policy prescribes 4 treatment options for risks: avoidance, transfer, acceptance and mitigation. Regarding climate-related risks, we have implemented several mitigation and adaptation measures to manage the level of risk to which the organisation is exposed.

Mitigation	Adaptation
Actions to reduce the impact on natural systems i.e., avoid and reduce GHG emissions. Such measures address the cause of climate change and their benefits manifest globally.	Actions to become less dependent on natural systems threatened by climate change, thereby addressing the impact of climate change and reducing harm at a local level.

Let us explore the mitigation and adaptation measures Capitec has put in place from an operational perspective to address climate-related risks and leverage opportunities.

Capitec head office, Stellenbosch



Completed in 2020, Capitec's head office was designed and constructed to high standards of environmental protection throughout. Some key specifications of the building are summarised as follows, with some measures also implemented at other business premises where reasonably practical.

Strategy continued

Energy efficiency	
<p>Window glazing and solar shading</p> <p>The building was designed to benefit from natural light and the panoramic views of the surrounding winelands. To enable this, low-emissivity glass was installed across the entire building to minimise the amount of infrared and ultraviolet light that comes through the glass and improve the thermal performance of the building.</p> <p>Thermal performance modelling was used to inform and optimise the façade design. Double glazing was used to reduce glare and a white, reflective building envelope was erected to limit the amount of direct sunlight allowed into the building. This reduces the heat load and reduces the cooling requirement during summer months.</p> <p>Innovative blinds</p> <p>The blinds selected for the building were placed in all areas exposed to direct sunlight. Blinds were selected with a high solar reflection ratio and a low transparency factor. Blinds are motorised using solar power and close automatically when direct sunlight may cause a problem.</p> <p>Heating and cooling</p> <p>The economic cooling capability of the cooling solution enables the air-conditioning system to use fresh air from around the building with limited conditioning to set the moisture content. Even in summertime, when the outside ambient temperatures are high, fresh external air can be used for a large portion of the day resulting in a better working environment and lower energy requirements.</p> <p>A cooling system, which produces ice at night and stores it in insulated purpose-built containers, was included in the design. During the day, the ice is used to supplement the cooling mechanisms of the building, thereby reducing the energy requirement.</p>	<p>Lighting</p> <p>LED lights are used throughout the property. This significantly reduces power consumption and the environmental impact caused by fluorescent lighting.</p> <p>A large portion of the building is open plan with large overhead skylights over the central atrium, allowing natural sunlight to penetrate the building and supplement the lighting infrastructure.</p> <p>Motion sensor switches were strategically placed to align with the occupancy in the area.</p> <p>Building management system</p> <p>An intelligent building management system was installed to monitor all motorised systems and control circuits. The system will engage the most efficient mode of operation automatically to achieve the required condition. Heating, ventilation and cooling are responsible for the largest portion of the power demand. Optimising the requirement for cooling and applying the best source will help minimise the power demand. The external air temperature is monitored and, when relevant, is conditioned for use in the building without the need for air recycling.</p> <p>All information technology network rooms are designed to take advantage of the latest technology available for network switches which can operate at a higher temperature threshold. Cooling is only introduced when temperatures reach a selected threshold and hot air is expelled from the building.</p> <p>Energy consumption can best be managed when measured in the various areas. Power meters are installed to measure the power demand continuously for the various circuits and will report on any exceptions.</p>
Water use efficiency	
<p>Low flow, water-saving sanitary fittings</p> <p>All sanitary fittings take advantage of the latest technology to limit the requirement for water for flushing.</p> <p>Ablution facilities were provided with motion sensors. Water in the wash basin is only dispensed when movement is detected in close proximity of the tap. This reduces the requirement for manual opening and closing while removing the risk of taps remaining open.</p> <p>Rainwater harvesting</p> <p>2 large tanks in the building were designed to retain and attenuate the stormwater run-off from the building, thus reducing the requirement to manage stormwater downstream from the site. Water retained is used for irrigation and supplementing the grey water system. All run-off from the entire office complex is channelled to the retention tanks to derive maximum benefit from rainwater.</p> <p>Borehole water</p> <p>A borehole was installed on the property to supplement the water available to support the grey water plant and irrigation system.</p> <p>Air-cooled air-conditioning system</p> <p>The air-conditioning system uses no water for cooling purposes. The heat is transported away with air through heat exchangers.</p>	<p>Use of grey water</p> <p>The use of grey water, rainwater and borehole water further reduces the requirement to use municipal water for flushing. The building management system selects the most appropriate source to limit water demand.</p> <p>Irrigation</p> <p>The water storage tanks were designed to retain a significant volume of the annual rainfall for reuse for grey water supplementation and irrigation. The borehole supplements the rainwater for irrigation during the dry summer months. Landscaping was done using water-wise planting in all cases.</p> <p>Fire sprinklers</p> <p>All floors have isolation valves and water used during testing is expelled to storage tanks which makes it available for reuse.</p> <p>Sub-metering</p> <p>All water consumed on-site is measured at various control points to monitor and support improved management practices. This includes water supplied for potable water, grey water, amenities, wash-down, irrigation and supplies from municipal source, borehole and rainwater tanks. Water sub-metering also aids in optimising water usage and leak detection.</p>
Transport	
<p>Cycling facilities</p> <p>Dedicated facilities are provided under cover for the storage of bicycles. Cyclists can also make use of the shower and cloakroom facilities accessible from the perimeter of the building.</p>	<p>Parkade</p> <p>Capitec encourages employees to make use of car-pooling or lift clubs to commute to offices. There are significantly fewer parking bays in the secure parkade than the number of employees at the premises which further encourages the use of lift clubs.</p> <p>The past year also saw Capitec providing dedicated, secure parking for motorcycles which are much less dependent on fuel than the average vehicle.</p>
Waste disposal	
<p>Recycling</p> <p>A dedicated sorting area is provided in the basement where all waste produced in the building is sorted to take maximum advantage of the local municipal recycling capabilities. Specialist recycling companies are also contracted to remove recycling material. In the office environment, separate bins are deployed to enable sorting at source.</p> <p>Incentivising responsible behaviour</p> <p>Employees are offered a discount when they bring their own mug to the on-site coffee shop when buying coffee.</p>	<p>Reduced paper use</p> <p>Limited storage capacity is provided on-site for traditional paper filing systems. This has been replaced with appropriate technologies to store documents digitally.</p> <p>All meeting packs are distributed in soft copy digital format which is more secure, easily accessible and climate friendly. Capitec also uses specialised software to securely sign documents and agreements electronically.</p> <p>The number of office printers was reduced, and every printer is fitted with repositories for secure shredding and recycling.</p>

Strategy continued



On 25 August 2022, Capitec commissioned a large PV solar array with a generation capacity of 715kWp. The cost, excluding project management and engineering fees, amounted to R13.5 million.

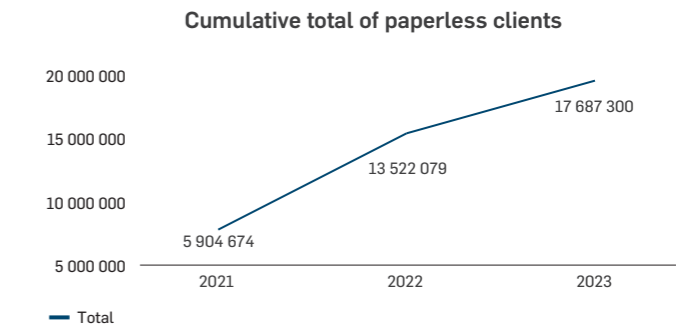


Recycling electronic equipment

Capitec follows a secure, responsible and environmentally friendly approach for the destruction of redundant electronic equipment through recycling via a third-party service provider. For the financial year ended 28 February 2023, we recycled 26 897kg of equipment in this manner.

Branch efficiency

Capitec launched a pilot project for a paperless initiative in June 2020 with the aim of removing most paper-based documents from branches. Officially launched a few months later, the initiative has been very successful, with the cumulative number of client conversions on 28 February 2023 amounting to 17 687 300 clients.



To provide further perspective, let us explore the impact on the 75.6 million agreements generated during the past financial year:

	Agreements generated		Number of A4 sheets ¹
eSignature (paperless)	70 461 063	93.2%	143 192 670
Wet signature	5 163 110	6.8%	11 182 926

¹ Double-sided printing.

Based on the following assumptions regarding A4 paper:

Paper length is 297mm.

Putting that into perspective, our Earth's circumference is 40 070km.

Aligning the saved paper, short sides against each other, it adds up to **42 528km** which means that our paper-saving circumvented the Earth.

Average cost per sheet of paper is R0.095.

We saved **R13 603 303.65**.

A standard 14m high pine tree produces on average 10 000 sheets of paper, so we saved **14 319 trees**.

Source: <https://8billiontrees.com/trees/how-many-0pieces-of-paper-in-a-tree/>

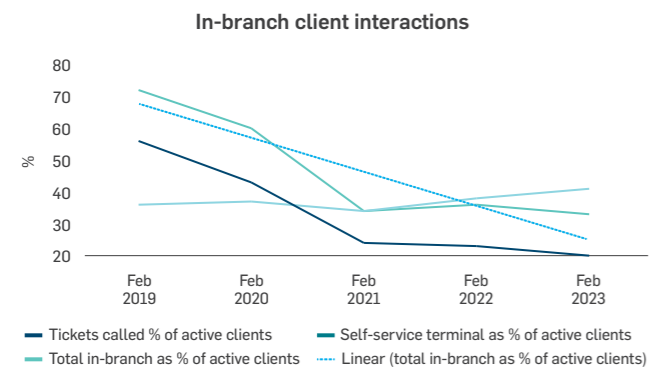
Strategy continued

Branch network

Capitec is busy replacing fuel-run generators across our branch network with inverters and lithium-ion batteries. Although this entails continued reliance on the South African power grid, generation of which is predominantly coal-based at present, reliance on fossil fuels will reduce in line with our power utility's Just Energy Transition (JET) strategy (refer to page 48). This will at least provide continuity of service during periods of electricity load shedding.

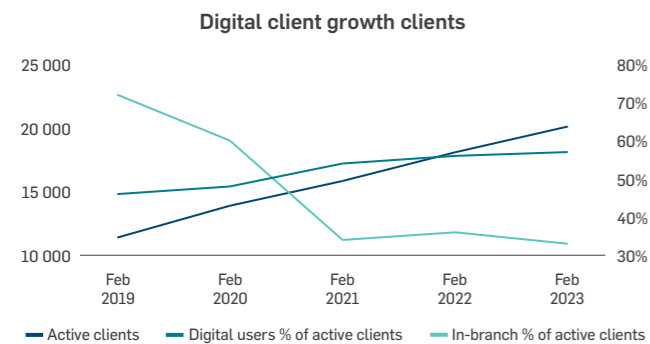
We have implemented various strategies over the years to reduce the necessity of clients having to visit the branch. These include expanding our transaction and client communication channels as well as contact centre capacity. The graph below shows the steady decrease in the percentage of active clients visiting our branches, choosing rather to utilise our digital transaction channels (refer to the section below) and in so doing, decreasing our Scope 3 GHG emissions.

Technology has also been rolled out throughout our branch network to reduce the need for regional managers to travel between branches, so reducing GHG emissions from employee commuting.

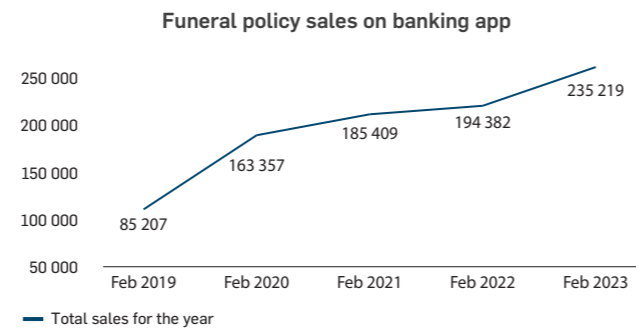


Capitec banking app and digital transaction strategy

The exponential growth in active digital clients from 2.7 million in 2016 to 11.4 million in 2023 is key to growing our business volumes in an environmentally friendly way. This is demonstrated when calculating our GHG emissions carbon intensity per active client.



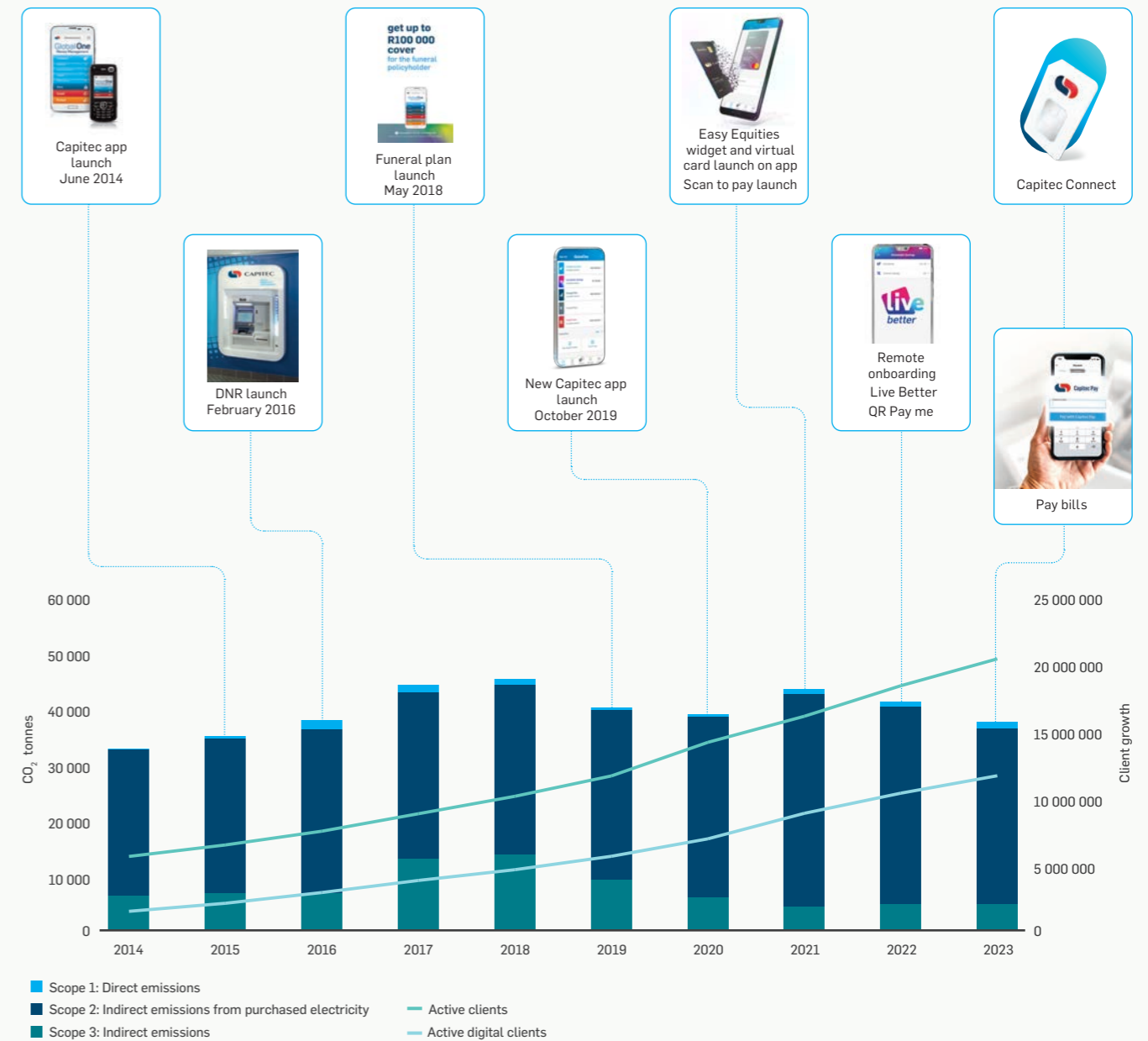
Since making funeral policy sales available on our app, users of this channel have grown exponentially year-on-year. Since 2016, our active Capitec banking app users grew from 321 000 to 9.5 million. Since 2017, Capitec has paid for data usage on behalf of our clients using the banking app which further improved access and client conversion towards digital channels.



To increase the use of digital banking platforms (to move clients away from cash), Capitec launched several value-add services in the past year:

- Capitec Connect was launched in partnership with Cell C in September 2022. It is a prepaid offer combining low, flat prepaid rates with bundles that do not expire. Flat rates mean that the cost per unit for data, voice minutes or SMSes stays the same whether clients purchase a little or a lot. Since the launch, we have already issued over 300 000 Connect SIM cards
- 'Pay me' which allows clients to create their own QR code or send a link on WhatsApp that the recipient can just click to pay
- Google Pay (for Android) and Apple Pay digital wallets were launched on 27 September 2022 and 6 December 2022, respectively. This allows for contactless, cashless payments in-store or online when your Capitec debit or credit card is loaded on the Google Pay or Apple Pay apps
- The 'Pay bills' functionality was added to our digital payments' functionality on our app and USSD from 21 October 2022. This allows clients to perform seamless payments to all registered Pay@ and EasyPay billers
- Conversational banking on WhatsApp was launched on 12 December 2022. This allows clients to use WhatsApp for self-service needs or to chat to a client care agent without having to visit a branch or call our client care centre.

Capitec GHG emissions versus client growth



Strategy continued

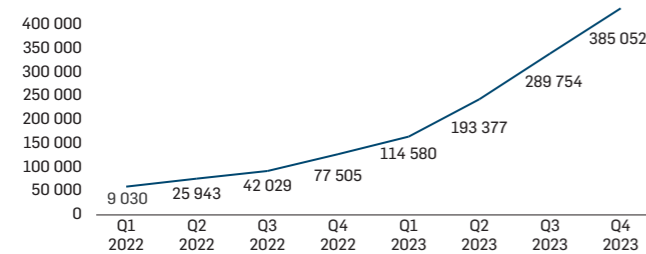
Cash efficiency

Capitec commenced with the roll-out of dual note recycler (DNR) devices in January 2016. A DNR is an automated teller machine (ATM) that can receive cash deposits and dispense the same cash during withdrawal transactions. This reduces the dependency on cash-in-transit (CIT) services to transport bulk cash and reduces the accompanying risks and GHG emissions. For the financial year ended February 2023, 51% of cash dispensed through Capitec ATMs was sourced from DNR (and ATM) deposits. Since 2016, more than R328 billion in cash had been recycled which would otherwise have been replenished via CIT services.

Onboarding and optimisation

Capitec launched remote onboarding on 15 March 2021, enabling prospective clients to open an account with Capitec without having to visit a branch in person. Since then, 385 052 clients were onboarded through this new functionality, of which 307 547 were in the past year.

Cumulative remote onboarding



Third-party suppliers and service providers

Capitec's supplier code of conduct outlines our expectations from our suppliers regarding their impact on the environment.

We follow a strategy favouring cloud infrastructure and co-located data centres to reduce our environmental impact by leveraging the scale and efficiency of specialist vendors. The vendors we partner with for our cloud and data centre infrastructure are consistently striving towards improving efficiency in their operations, thereby reducing their energy consumption and carbon footprints. The service providers for our co-located data centres have improved the efficiency of their data centres through initiatives such as implementing more energy- and water-efficient cooling systems.

Amazon Web Service (AWS), our cloud service provider, is well on its way to delivering on its commitment to use 100% renewable energy by 2025, and to reach net-zero carbon across all operations by 2040 with a focus on indirect emissions from the construction of its data centres.

AWS is also committed to being water positive by 2030 i.e., returning more water to communities and the environment than they use in their operations.

With a move from traditional on-premises infrastructure to AWS, organisations typically reduce their carbon emissions by 88%. This is due to an estimated 77% reduction in the need for servers, 84% less power and tapping into a 28% cleaner mix of solar and wind power compared to their own data centres.

Source: <https://aws.amazon.com/compliance/data-center/environmental-layer/>

CSI and employee volunteerism

Capitec employees are entitled to 3 days paid leave per annum that can be used for volunteerism as part of our CSI initiatives. Volunteer leave can be used for social or environmental projects, with the following SDGs being prioritised: zero hunger, good health and well-being, quality education, climate action and partnerships for the goals.

In the past year, we had 1 917 employees take 2 418 days' volunteer leave, with around 1 500 additional volunteer days contributed by employees from their own time (public holidays and weekends).

In support of the climate action SDG, the following initiatives were pursued:

World Wide Fund for Nature

175 volunteers | 5 projects

Planting indigenous plants and reclaiming waste and recycling



Clean C and Beach Co-op

74 volunteers | 2 projects

Sustaining beaches and sea creatures

ABOUT THE BEACH CO-OP
 TBCO is a not-for-profit company that evolved from the work of a group of volunteers that started collecting marine debris at their local surf break, the rocky shore at Surfers Corner in Matzenberg, Cape Town in 2015.

OUR VISION
 TBCO works collaboratively and creatively within ocean communities and with government and business to urgently protect, restore and regenerate the integrity of ocean ecosystems.

GOALS

- Collaboratively clean Blouberg Beach, Matzenberg
- Learn about marine biodiversity and citizen science
- To build communities that care for our marine environment.

OUTCOMES

- 14 Participants
- 9.36 Kilograms of litter removed
- 1.5 Kilometers of beach cleaned

DIRTY DOZEN RESULTS

Item	Percentage
Fishing line	1.7%
Lollypop sticks	10.4%
Earbuds	1.0%
Straws	14.7%
Cool drink bottles	0%
Carrier bags	0%
Chip packets	0%
Sweet wrappers	11.4%

OPPORTUNITIES FOR COLLABORATION

- Support TBCO as a core partner
- Support our Plastic Free July campaign
- Sponsor ongoing beach cleanups to gather data towards our long-term monitoring research
- Sponsor an environmental education cleanup with a school

THANK YOU FOR YOUR SUPPORT CAPITEC TEAM!
 CO-CREATING SOLUTIONS FOR PEOPLE AND PLANET

April 2022 also saw intense rainfall cause floods and landslides in the KwaZulu-Natal and Eastern Cape provinces. At least 459 people died and more than 40 000 people were displaced.

Source: <https://www.bloomberg.com/news/articles/2022-05-29/death-toll-from-flooding-in-south-africa-s-kzn-ri>

In KwaZulu-Natal, Capitec's CSI team assisted with:

- trauma counselling for employees who lost loved ones or colleagues
- flood relief fundraising; **R150 000** was raised and allocated to the most affected employees
- partnering with Meals on Wheels; Capitec employees also volunteered in the kitchen preparing, dishing up and feeding **14** different communities (**55** volunteers spent **5** days preparing **12 935** meals). **R100 000** was also donated towards ingredients
- providing vouchers to employees for essentials like food and water. A further **3 000** 5-litre bottles of water were also sent to affected areas
- donating **R150 000** to the People of South Africa to deliver support to affected communities through church groups.

Strategy continued

Climate-related opportunities and their impact on business strategy and financial planning

Through engagement with internal subject matter experts, Capitec has identified a number of climate-related opportunities it can leverage over the short, medium and long term. The table below sets out each opportunity type as well as the time horizon over which each of these is likely to be realised.

Opportunity type	Climate-related opportunities	UN SDG	Short term	Medium term	Long term
Resource efficiency	Use of more efficient modes of transport and distribution processes (car-pooling encouraged)		Yes	Yes	Yes
	Use of recycling (extensive recycling of paper, responsible disposal of electronic equipment)		Yes	Yes	Yes
	Increase efficiency of buildings (green head office, considering similar options for contact centres in the short to medium term)	 	Yes	Yes	Yes
	Reduced water usage and consumption (low-flow sanitary fittings, rainwater harvesting boreholes, grey water systems)		Yes	Yes	Yes
	Use of lower-emission sources of energy (LED and motion-sensor lighting)		Yes	Yes	Yes
Energy systems	Use of supportive policy incentives (collaborate with industry through BASA sustainability forums)		No	No	Yes
	Use of new greener technologies and commodities markets		No	No	Yes
	Participation in carbon market (reduce own carbon footprint before considering the carbon market)		No	No	Yes

Opportunity type	Climate-related opportunities	UN SDG	Short term	Medium term	Long term
Products and services	Development of low-emission products and services (continue to expand on digital banking solutions)	 	Yes	Yes	Yes
	Development of new products or services through innovation (consider green product offerings to clients)	 	No	Yes	Yes
	Expand range of products, services and distribution channels to diversify risks		No	Yes	Yes
	Shift in consumer preferences (monitor client sentiment and react timeously where needed)	 	Yes	Yes	Yes
	Reputational benefits resulting in increased demand for products and services	 	No	Yes	Yes
Markets	Use of public-sector incentives		No	No	Yes
	Increased demand from institutional investors to invest in companies that have positive environmental credentials (continue sustainability journey and be transparent about goals, progress made and challenges experienced)		Yes	Yes	Yes
	Development of new revenue streams from new/emerging environmental markets and products		No	Yes	Yes
	Improved ratings by sustainability/ESG indexes (engage with selected rating agencies, focus on expanding public disclosures)		Yes	Yes	Yes
Resilience	Participation in renewable energy programmes and adoption of energy-efficiency measures		No	Yes	Yes
	Resource substitutes/diversification (expand on existing recycling initiatives)		Yes	Yes	Yes
	New products and services related to ensuring resilience	 	No	Yes	Yes

Although we have identified several climate-related opportunities and their expected time horizons, we have not yet quantified their potential for generating substantive positive changes in our business operations, revenue or expenditure.

Strategy continued

Organisational resilience through scenario analysis

Despite uncertainties around the exact impact of climate change at a local level, impacts can still be modelled with sufficient confidence to provide valuable insights into business strategy, financial planning and ERM. This provides a quantitative outcome for selected risk-based scenarios, ideally covering both physical and transition risks, across various time horizons.

Evaluating and quantifying the impact of climate change have several benefits:

- Protect value chain resilience
- Optimise costs and maximise revenues
- Reassure investors and, in so doing, attract and retain capital investment
- Reassure regulators of business resilience by incorporating CSST results into the own risk and solvency assessment and annual internal capital adequacy assessment process.

It is worth noting that the accuracy, validity and value of CSSTs are subject to the quality of the underlying external climate-relevant data which is challenging to source. As our climate journey progresses, with access to appropriate internal and external data improving, our scenario analyses will also mature to include the Representative Concentration Pathways as developed by the IPCC and recommended by the TCFD.

Common Scenario Stress Test: Climate risk

As part of the 2021 CSST, the SARB required banks to perform additional stress assessments in terms of climate risk for physical risk as defined.

An increased frequency and intensity of climate risk events (physical risk), such as the drought in the Western Cape between 2016 and 2019, as well as transition risk associated with industries impacted by the move to a net-zero economy, have the potential to impact business profits negatively.

For the CSST, a high-level assessment of the financial impact of a severe drought scenario was added to an adverse stress testing scenario. The severe drought scenario was as follows:

- a 40% reduction in the average annual rainfall in 2021, followed by
- a 21% reduction in average annual rainfall in 2022 and 2023.

The assessment quantification was based on historical data that assessed the relationship between a reduction in annual average rainfall and Capitec's default rates. We used the Retail bank and Business bank credit book values on 31 December 2020 as a starting point (basis) for the stress test.

The simulated drought experience illustrated an 8% increase in credit losses over a 3-year period compared to the stress testing base. The agriculture sector was the most sensitive to the drought scenario with a 28% increase in credit losses, however, it comprises only 2% of the total credit portfolio. Large sectors such as Sovereign (government), wholesale and retail and other showed limited increases in credit losses and made up 82% of the total credit book.

The results from the climate stress test confirmed Capitec's resilience to an adverse climate risk event.

Industry	Stress credit loss increase over 3 years (%)	Dec 2020 Total credit balance exposure distribution Retail and Business (%)	Feb 2023 Total credit balance exposure distribution Retail and Business (%)
Agriculture, hunting, forestry and fishing	28	1	2
Electricity, gas and water supply	20	1	1
Manufacturing	15	10	7
Mining and quarrying	24	9	9
Other	8	32	25
Sovereign	0	37	47
Wholesale and retail trade	0	9	10
	8		

The next facilitated CSST is scheduled for 2024. The SARB is expected to confirm assumptions and expectations in due course, after which Capitec will build and further refine its stress testing models.

Inherent credit risk profile per industry (transition risk heatmap)

Through Capitec's financing activities, it participates in several industries. The table below categorises sectors in accordance with their inherent risk not only due to the physical impact of climate change thereon, but also due to the extent it will be affected by the transition of supply chains, technological shifts and market demands during a transition to a low-carbon economy. In the absence of an updated CSST for 2023, this provides some insight into Capitec's credit book exposure risk at a sectoral level.

Industry	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue	Overall
Agriculture	High	Moderate high	Moderate	Moderate low	High
Industrials	Moderate high	Moderate	Moderate low	Low	Moderate high
Metals and mining	Moderate high	Moderate	Moderate low	Low	Moderate high
Oil and gas	High	Moderate	Moderate low	Low	High
Power generation	Moderate high	Moderate	Moderate low	Low	Moderate high
Real estate	Moderate low	Moderate	Moderate low	Low	Moderate low
Services and technology	Moderate low	Moderate	Moderate low	Low	Moderate low
Transportation	Moderate high	Moderate	Moderate low	Low	Moderate high

Inspired by: **United Nations Environment Programme Finance Initiative (UNEP FI), 2020. Beyond the Horizon. New Tools and Frameworks for transition risk assessments from UNEP FI's TCFD Banking Program**

Retail bank credit risk

Based on the UNEP FI transition risk heatmap for all major industries, Capitec's retail credit book has very limited exposure to those industries inherently considered high-risk (in terms of climate-related risks).

It is worth noting that retail credit risk exposures can be increased or reduced based on forward-looking variables. Our credit teams perform extensive research and model future scenarios for industries and companies. Credit exposure for clients employed at businesses with unfavourable prospects is reduced or avoided based on advanced quantitative analyses. This mechanism is very useful in managing transition risk as well as capitalising on opportunities. Our systems are configured to enable these idiosyncratic changes very quickly.

Retail credit book balance distribution

Industry	Balance %
Agriculture, hunting, forestry and fishing	2
Community, social and personal services	53
Construction	1
Electricity, gas and water supply	1
Financial intermediation and insurance, real estate and business services	11
Manufacturing	6
Mining and quarrying ¹	10
Other	2
Transport	5
Wholesale and retail trade	8
Total	100

¹ Mining and quarrying represents credit extended to individuals employed in the mining industry, and not directly to finance mining or quarrying activities.

Business bank credit risk

Our Business bank division does not offer corporate finance and instead focuses on small- and medium-sized enterprises (SMEs).

Capitec's Business bank credit book also has limited exposure to industries inherently considered high-risk (in terms of climate-related risks).

We have made good progress in establishing a new employer database with vertical (company structure), horizontal (suppliers, contractors, etc.) and geographical data on employers which will enhance our ability to manage this risk.

Business credit book balance distribution

Industry	Balance %
Agriculture, hunting, forestry and fishing	2
Business services	3
Community, social and personal services	13
Construction	4
Electricity, gas and water supply	0
Financial intermediation and insurance	5
Manufacturing	9
Mining and quarrying ¹	2
Other	14
Private household	2
Real estate	24
Transport	5
Wholesale and retail trade	17
Total	100

¹ Mining and quarrying represents credit extended to individuals employed in the mining industry (primarily in the form of mortgage loans) and heavy vehicle asset financing (transport), and not directly to finance mining and quarrying activities.

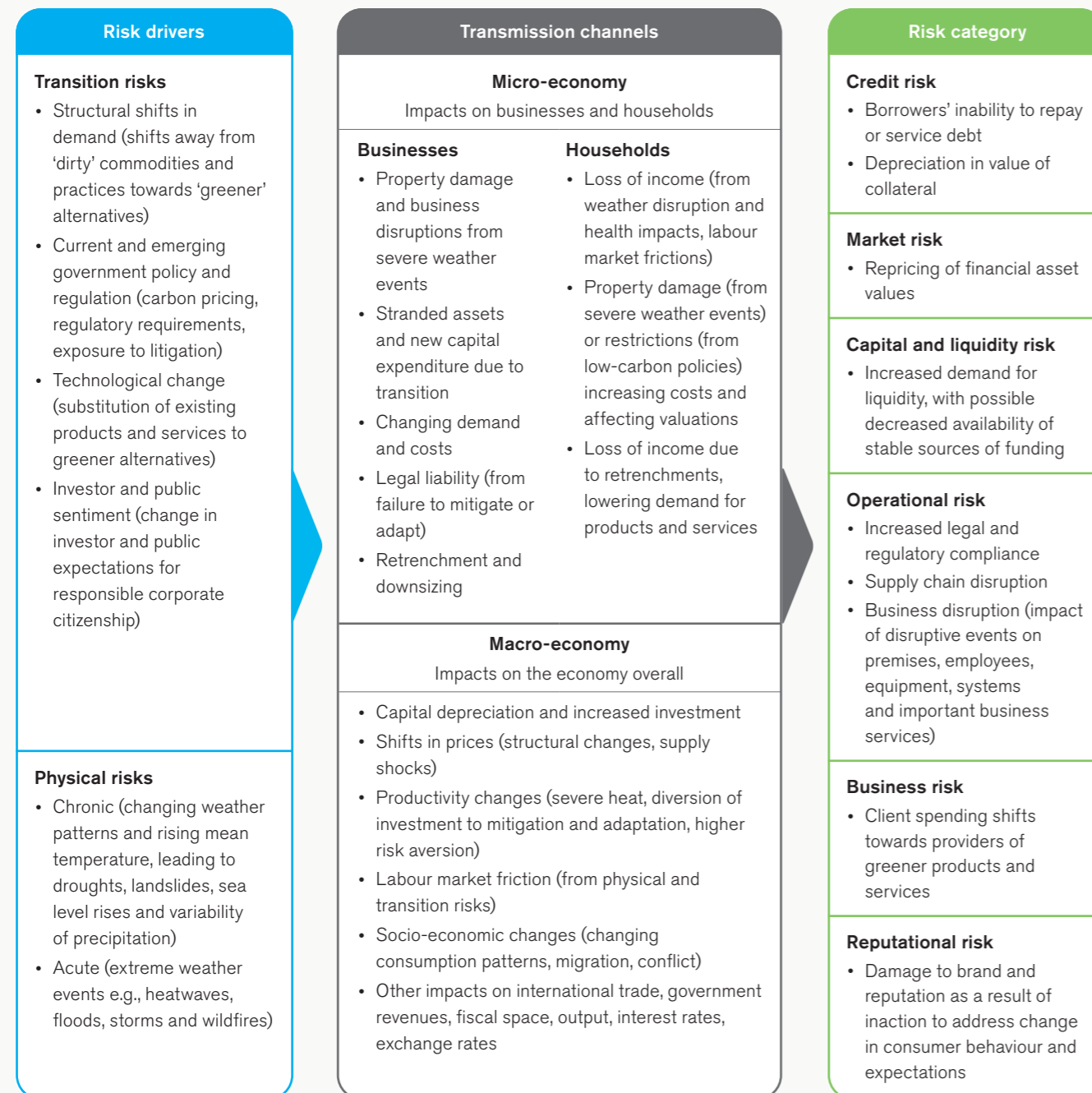
risk management



Risk management continued

Risk drivers and transmission channels

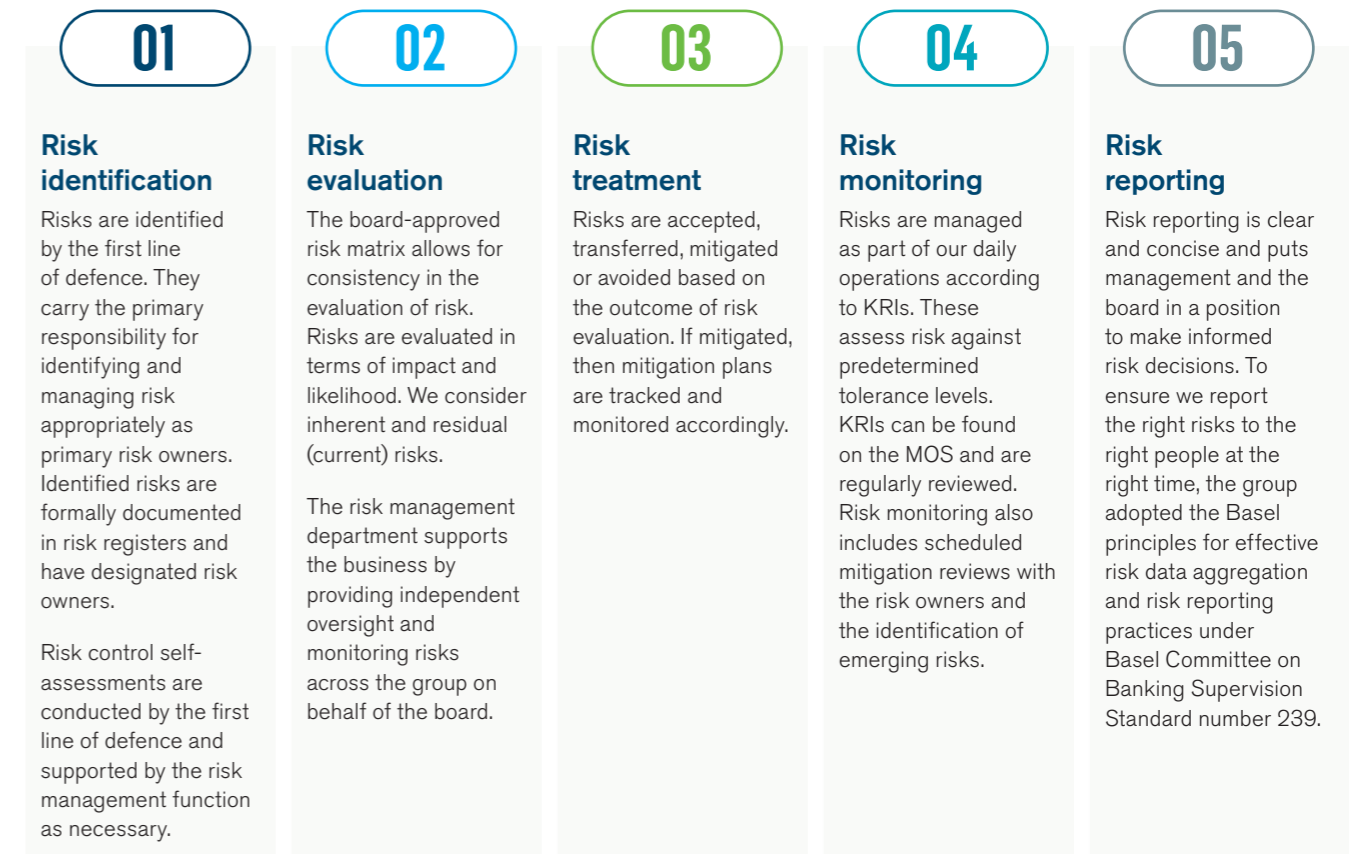
Climate-related risks, both physical and transition, can arise and impact Capitec through both micro- and macroeconomic transmission channels and realise across a range of risk categories. The table below demonstrates the climate-related risk drivers, the channels through which they are transmitted and the risk categories across which they are expected to realise.



Inspired by: Network for Greening the Financial System, 2022. NGFS Scenarios for central banks and supervisors

Climate-related risk identification and evaluation

Risk management is an essential element to the strategic management of our business. At its core, risk management includes 5 steps to ensure risks are effectively and adequately managed.



Risk identification

Capitec's risk culture is one that empowers all employees to take ownership of risk identification across the business. It has therefore adopted a dual risk identification and evaluation methodology that considers risks from a business (bottom-up) and strategic (top-down) level. Capitec also considers external sources to identify new and emerging risks. Due to the specialist nature of climate-related risks, we use the services of industry experts, industry forums, academic literature and publications, and other publicly available information.

The bottom-up process follows 2 key processes:

- After several education and awareness interventions, an enterprise risk hub was launched on the company intranet to enable employees at all levels to report identified risks. Validated risks are continuously added to the enterprise risk register where they will follow the standard risk management process.

- Periodic risk and control self-assessments are performed across the business where all teams are required to critically assess the risks and control frameworks for their respective areas.

Additional opportunities for risk identification are afforded during the business impact analysis performed as part of Capitec's business continuity management programme. This allows line management to evaluate their internal processes and dependencies as well as consider any threats or vulnerabilities in their respective areas.

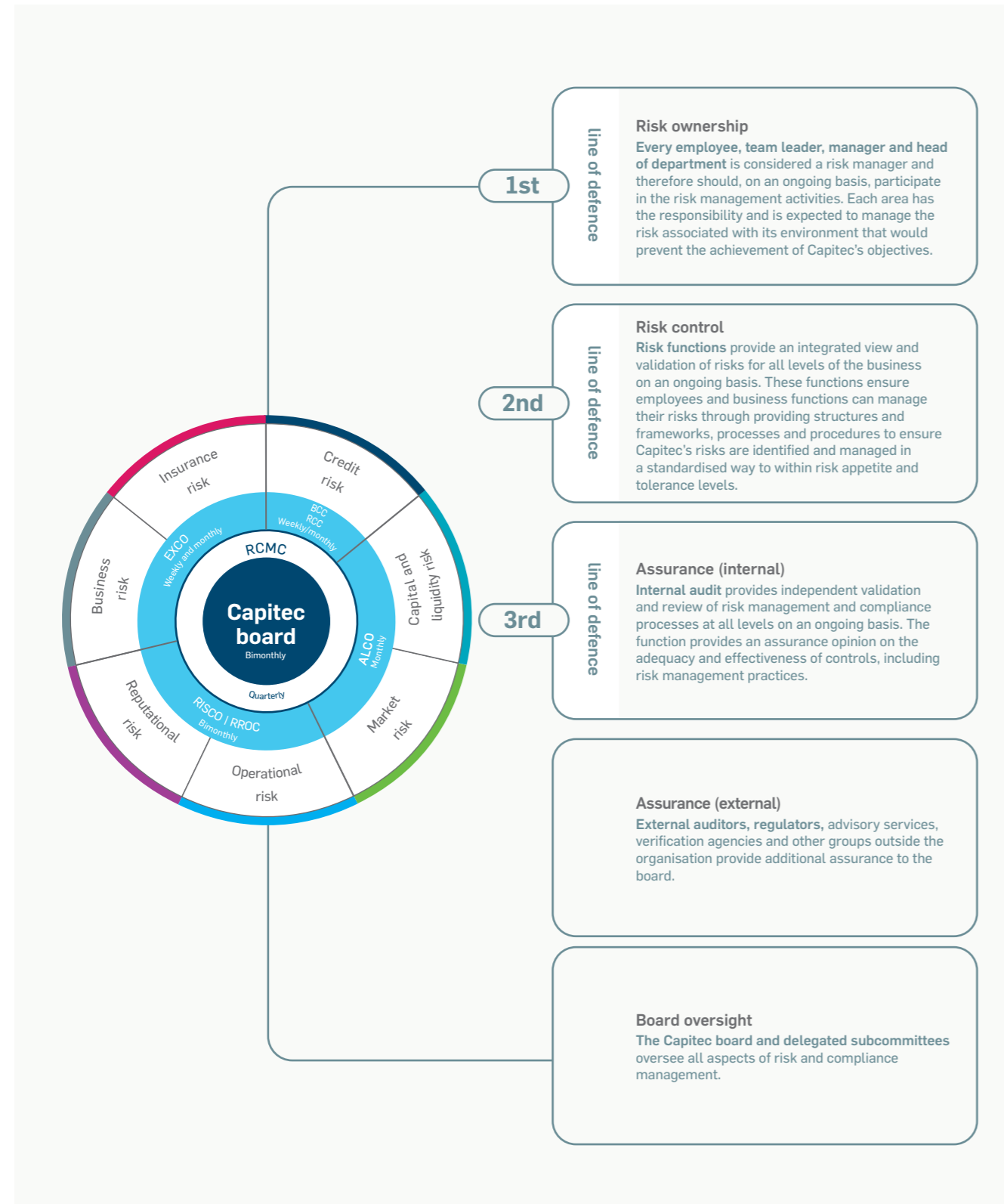
Risk evaluation

Risk analysis and evaluation involves a detailed consideration of a 2-criteria approach: likelihood and impact. The consideration includes risk sources, consequences, events, scenarios and controls, and their effectiveness. Capitec considers risk from an inherent and residual perspective and the board-approved risk matrix allows for consistency in the analysis and evaluation of risk.

Risk management continued

Management of climate-related risks

Capitec subscribes to the 3 lines of defence framework. It enhances the understanding of risk management and control by clarifying roles and responsibilities. Risk ownership resides in the first line of defence to ensure and maintain objectivity and independence in the end-to-end risk management process.



Risk appetite

At the foundation of its risk management process is a well-defined risk appetite per risk category i.e., the level of risk we are willing to accept to achieve our strategic objectives.

Risk category	Risk appetite
Business risk	Low
Credit risk (Retail)	Medium
Credit risk (Business)	Low
Insurance	Medium
Capital and liquidity risk	Low
Market risk	Low
Operational risk (including compliance and climate-related risks)	Low
Reputational risk	Low

Risk treatment

Selecting and implementing the most appropriate risk treatment option(s) involves balancing the potential benefits derived in relation to the achievement of the objectives against costs, effort or disadvantages of implementation. Risk treatment options include:

- Risk avoidance: avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk exposure or choosing an alternative approach to achieve the desired objective
- Risk transfer: shifting or sharing risk exposure with third parties through agreements or insurance
- Risk acceptance: acknowledging the risk and taking an informed decision to retain the risk exposure while ensuring that appropriate monitoring is in place
- Risk mitigation: reducing the likelihood and/or impact of risk through the improvement of management controls, processes and procedures.

Risk treatment further extends to devising a risk treatment plan that specifies how the chosen treatment options will be implemented, so that arrangements are understood by those involved, and progress against the plan can be monitored. The treatment plan must clearly identify the order in which risk treatment must be implemented.

Risk monitoring and reporting

Risk monitoring is an ongoing process of managing risk that includes periodic reviews of risk treatment plans and tracking the effectiveness of risk controls. Monitoring and reviewing risks takes place in all stages of the risk management process and includes planning, gathering and analysing information, recording results or updates and providing feedback. If ongoing automatic monitoring of a particular risk is necessary, the preferred method is to develop a KRI on the MOS.

The outcome of the risk management process (assessments) is documented and reported through appropriate channels. The risk register is a tool used by Capitec to record and document all identified risk exposures including the actions taken to manage each risk. The risk register is essential in the successful management of risk as it records all risks and informs risk reporting.

Integration of climate-related risks into overall risk management

As climate-related risks are not owned by any one function and can manifest across all the standard risk categories, they are not treated as a stand-alone risk category, but rather integrated into each risk category's risk identification, evaluation, monitoring and reporting procedures.

To prevent this decentralised approach from becoming a barrier in the identification and treatment of new or emerging risks, the operational risk department acts as the central point for collaboration and communication of climate-related risks and opportunities.

Further supporting the integration of climate-related risks into overall risk management is the use of risk business partners (RBPs). RBPs are a collective of individuals who are the catalysts for risk management activities within their respective divisions and departments. This will assist Capitec to embed effective risk management practices into daily work routines and improve the overall risk culture across the organisation.

metrics and targets

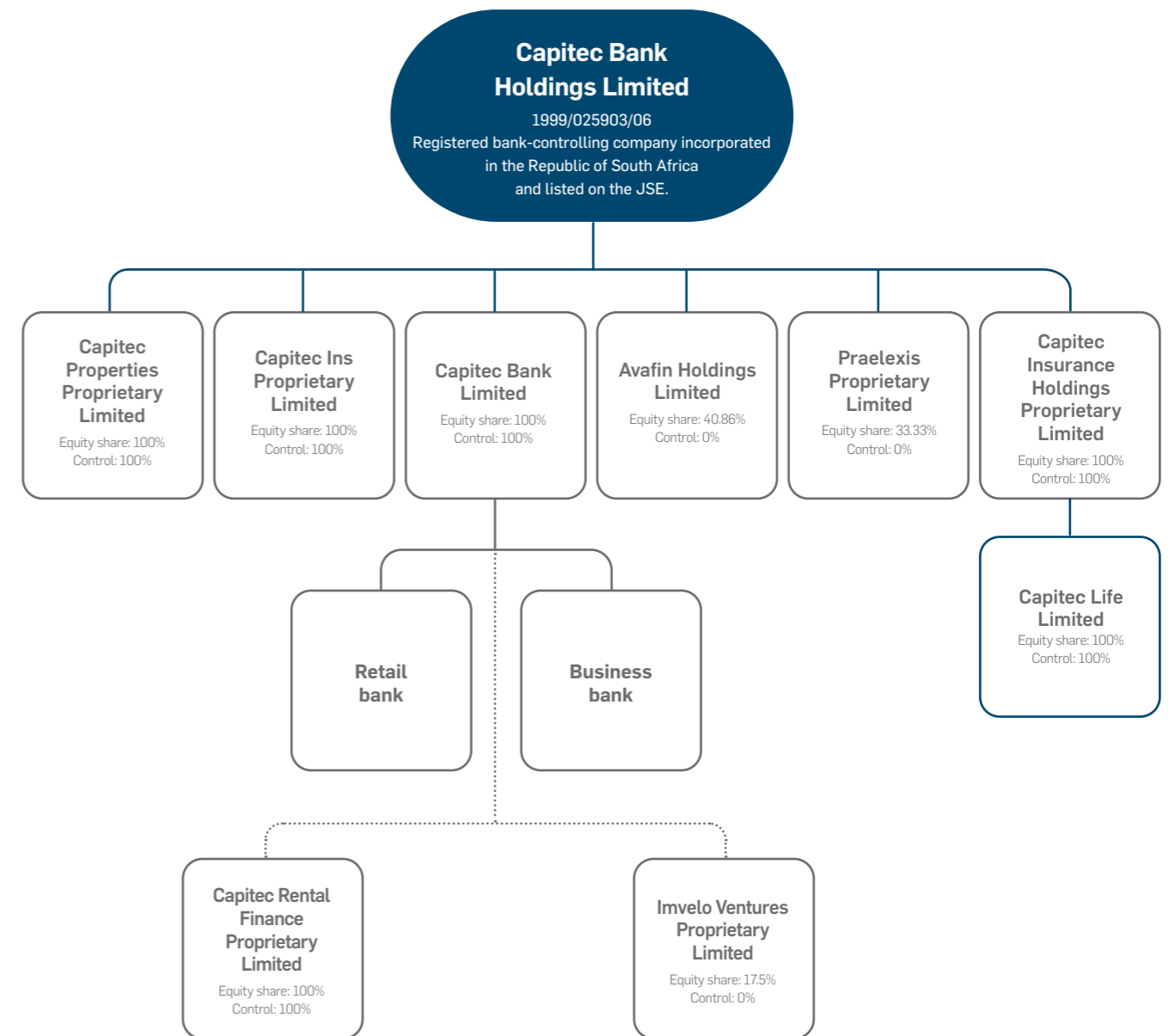


Disclosure coverage

According to the World Business Council for Sustainable Development and the World Resources Institute's GHG Protocol, 2 distinct approaches can be used to determine corporate reporting boundaries regarding GHG emissions: the equity share or control approaches.

Capitec aligned itself with the control approach, which allows a company to account for 100% of the GHG emissions from operations over which it has operational or financial control. It explicitly excludes GHG emissions from operations in which it owns an interest but has no control.

This climate-related financial disclosure represents Capitec Bank Holdings Limited, listed on the JSE, and its 100%-owned and controlled subsidiaries, as well as Capitec Life, Business bank, Retail bank and Capitec Rental Finance (refer to the image below).



Metrics and targets continued

Metrics used to assess climate-related risks and opportunities

To enable a start to our journey towards science-based target-setting, in the past year we had external industry experts perform a quality assessment and review of our existing GHG emissions calculations and practices and to guide us through a process to record and report metrics on a more accurate and complete basis. This formed a large area of focus in our reporting efforts during the past year. Not only did we improve and standardise our processes, we also took this opportunity to include our Business bank and Insurance divisions to align with the control approach of the GHG Protocol's corporate reporting boundaries recommendation.

This means that our 2021 and 2022 GHG emissions numbers have been restated, which we clearly indicate in our GHG emissions inventory below.

GHG emissions metrics

The metrics selected by Capitec to assess its climate-related risks and opportunities were deliberately chosen to not only ensure transparency of the impact of our business activities on society and the environment, but also to provide relevant information to our wide variety of stakeholders and to support our business strategies.

Accordingly, we report on direct and indirect emissions according to Scope 1, 2 and 3 as defined in the GHG Protocol; emissions are reported as metric tons of CO₂ equivalents:

- Scope 1: Direct GHG emissions from sources owned or controlled by Capitec, for example, vehicles used for deliveries
- Scope 2: GHG emissions from the generation of non-renewable purchased electricity consumed
- Scope 3: Indirect GHG emissions, which arise as a consequence of the activities of Capitec's suppliers or credit clients i.e., from sources not owned by Capitec.

Non-GHG emissions metrics

Regarding the impact of climate-related risks (physical and transition) on our financing and investment activities, exposures are broken down by geography (physical and transition) and industry (transition) across all time horizons.

Physical risks are already present and growing. Extreme weather events, droughts, floods and a rising number of wildfires are already manifesting across the globe, and South Africa is not spared.

Transition risks on the other hand are expected to manifest in the medium to long term (5 to 10 years), especially as the net-zero threshold deadline of 2050 comes closer.

GHG emissions inventory

GHG Protocol scope	2023	2022		2021	
		Prior report	Restated	Prior report	Restated
Scope 1					
Fuel used in owned or controlled equipment	475	116	101	6	69
Fuel used in owned or controlled vehicles	16	16	19	79	5
Air-conditioning and refrigeration gas refills	859	42	727	888	888
Scope 2					
Scope 2 location-based ¹	31 284	37 627	35 310	35 538	37 909
Scope 2 market-based ²	31 284	37 627	35 310	35 538	37 909
Total Scope 1 and 2	32 634	37 801	36 157	36 511	38 871
Scope 3					
Upstream					
Category 1 – Purchased goods and services	429	163	336	253	584
Category 6 – Business travel	2 054	1 398	1 866	1 079	1 348
Category 8 – Upstream leased assets	0	0	0	0	0
Downstream					
Category 9 – Downstream transportation and distribution	1 935	223	2 177	623	2 014
Total Scope 1, 2 and 3	37 052	39 585	40 536	38 465	42 817
Electricity consumed (MWh)	28 967	34 840	32 694	34 503	35 101

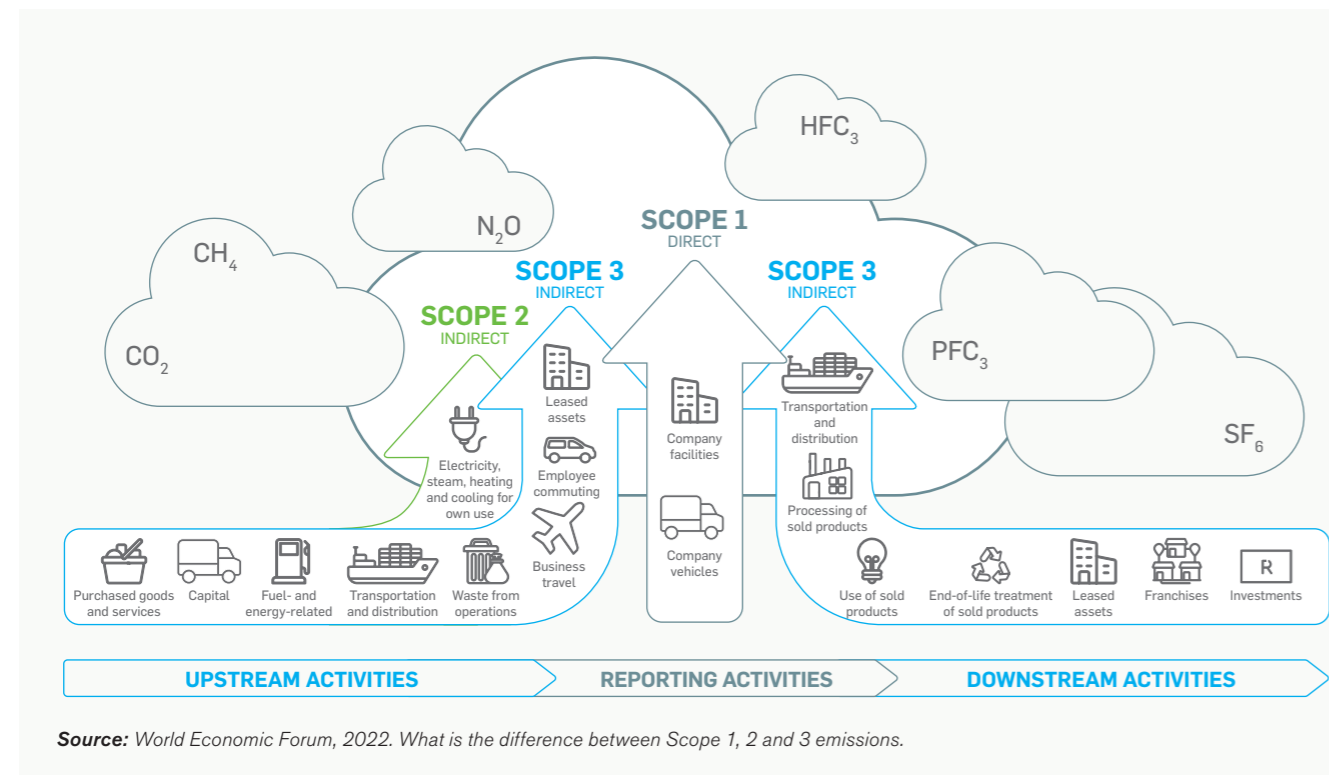
¹ Location-based reflects Scope 2 GHG emissions based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries.

² Market-based reflects Scope 2 GHG emissions based on GHG emissions emitted by the generators from which a business contractually purchases electricity bundled with instruments, or unbundled instruments on their own. In South Africa, we currently only have access to a single state-owned energy generator, hence our Scope 2 location- and market-based emissions are the same.

Renewable electricity consumed

Although we rely on Eskom for all electricity needs, our PV solar array, commissioned at our Stellenbosch head office on 25 August 2022, generated 506MWh until end-February 2023, which saved an estimated 546 metric tons of CO₂ and R745 962 in operational expenses.

We are aiming to increase electricity storage capacity to allow the building to operate from battery rather than diesel-run generators during periods of electricity load shedding and low power demand (after-hours and over weekends).



Source: World Economic Forum, 2022. What is the difference between Scope 1, 2 and 3 emissions.

Our emissions reporting is guided by the GHG Protocol, with emission conversion factors as published by the UK Department for Environment, Food and Rural Affairs.

Metrics and targets continued

Benchmarking

When comparing Capitec's carbon intensity (metric tons of CO₂ per full-time employee) to other South African banks, the result comes out markedly lower. The reasons for this are our business model and operating activities.

Bank	Reporting year	Carbon footprint (tCO ₂ e)/ full-time employees
Capitec	2023	2.11
Bank A	2021	5.02
Bank B	2022	4.80
Bank C	2022	3.53
Bank D	2021	4.71
Bank E	2021	5.60

Capitec's carbon intensity (metric tons of Scope 2 CO₂ per m² floor space) reduced from 0.13 in 2022 to 0.11 in 2023.

Scope 3 GHG emissions

The GHG Protocol's Corporate Value Chain Accounting and Reporting Standard provides guidance on how to report on indirect GHG emissions resulting from upstream and downstream value chain activities. This provides a more complete picture of the impact of business activities on the planet and its people.

While the disclosure of Scope 3 emissions is currently not mandated, it seems very likely that IFRS S2 Climate-related Disclosures are expected to come into effect in 2024.

As our journey towards science-based target-setting commences in 2023, Capitec will assess which of its Scope 3 emissions are most significant when compared to its other sources of emissions, and for these, determine the best method of quantification based on availability and quality of data. We are aware that the initial years of Scope 3 data collection may include data of relatively low quality due to limited data availability, but believe that, over time, data quality will improve.

Current Scope 3 inclusions and exclusions

In choosing which Scope 3 emissions to report on, Capitec applies the principles of relevance, completeness, consistency, transparency and accuracy. The rationale behind any exclusions is explained below.

Scope 3 emissions	Reported	Notes
Upstream		
Category 1 – Purchased goods and services	Yes	Capitec reports on non-production-related procurement of goods and services, used to enable its operations, in particular, paper usage which we calculate using available activity data (the number of paper reams purchased and the average weight per ream), multiplied by an appropriate emissions factor.
Category 2 – Capital goods	No	We are considering looking into industry and national averages to gauge the viability of quantifying emissions from any property, equipment and other fixed assets procured during any given reporting period.
Category 3 – Fuel- and energy-related activities	No	All fuel and energy purchased and consumed are reported under our Scope 1 and 2 emissions.
Category 4 – Upstream transportation and distribution	No	These emissions are notoriously difficult to calculate and not expected to contribute significantly to our total Scope 3 emissions. As we believe there is little to no potential to influence emissions reductions, Capitec has decided to not report on category 4 emissions.
Category 5 – Waste generated in operations	No	We are busy improving our reporting on waste disposal, not only focusing on what we recycle, but also what ends up in landfills.
Category 6 – Business travel	Yes	Rental vehicles, commercial airlines and employee-owned vehicles, which information is obtained from travel agency invoices as well as kilometre claims submitted by employees. Emissions are calculated based on activity data provided (estimated number of litres of fuel used based on type of rental vehicle or kilometre claimed by employees), multiplied by an appropriate emissions factor.

Scope 3 emissions	Reported	Notes
Category 7 – Employee commuting	No	Consideration for inclusion in future reports.
Category 8 – Upstream leased assets	No	Capitec does not operate any leased assets in its upstream business activities.
Downstream		
Category 9 – Downstream transportation and distribution	Yes	Transport of cash by CIT, based on primary data (fuel usage reports) received from service providers. Emissions are calculated based on activity data provided (litres of fuel), multiplied by the appropriate emissions factor.
Category 10 – Processing of sold products	No	Capitec's primary business model is the provision of retail credit. As the end use of funds is unknown and has many potential applications, each having very different GHG emissions profiles, we are unable to reasonably estimate our downstream Scope 3 emissions at this point in time.
Category 11 – Use of sold products	No	
Category 12 – End-of-life treatment of sold products	No	
Category 13 – Downstream leased assets	No	As part of our journey towards setting science-based targets, we will assess the extent of financed Scope 3 emissions and based on its significance when compared to our other sources of emissions, determine the best method of quantification based on availability and quality of data.
Category 14 – Franchises	No	
Category 15 – Investments	No	

Water use

Due to limited data availability, we are currently unable to disclose water use across all business premises. We aim to expand on existing reporting over the next year.

We can, however, confirm that both our Bellville and Stellenbosch offices have access to rainwater harvesting and borehole water. Our head office in Stellenbosch also has water sub-metering in place aiding in the measurement, monitoring and management of water use at various control points.

The table below summarises the water consumption from renewable sources at our head office in Stellenbosch.

Water consumption (kl)	2023	2022	2021
Total borehole water use	598	74	108
Total grey water use (washroom)	3 746	4 150	1 180
Total rainwater use (irrigation)	5 400	8 175	5 094

Waste disposal

We currently primarily report on total waste recycled. The remainder of waste is landfilled but currently only quantified for our Western Cape head and regional offices. We aim to improve the availability and quality of data for our Gauteng regional offices over the next year. We currently do not, nor plan to, incinerate any waste.

Waste disposal	2023	2022	2021
Total waste recycled/reused (metric tons)			
Recycled paper	12.4	7.8	6.1
Recycled tins	0.7	0.2	0.4
Recycled electronic equipment	26.9	12.6	27.3
Reused waste ¹	2.0	unknown	unknown
Total waste disposed (metric tons)			
Waste landfilled (Western Cape)	37.7	unknown	unknown
Waste incinerated with energy recovery	0	0	0
Waste incinerated without energy recovery	0	0	0
Waste otherwise disposed	0	0	0
Waste with unknown disposal method	0	0	0

¹ Organic waste destined for a landfill but diverted to be processed in the creation of fuel, oil or gases like methane or butane. Only a small portion of the resulting substance is sent to a landfill.

Metrics and targets continued

Internal operations goals

Our initial operations target was to reduce, or at least maintain, our Scope 1 and 2 emissions per full-time employee and m² floor space occupied from our base year.

Capitec is a staunch supporter of science-based targets. We are of the opinion that using only intensity-based targets is not sufficient and are therefore committed to starting our science-based target-setting journey in the next year, which will also see us draft a transition plan aligned with the goals set by the Paris Agreement.

Capitec supports the approach of reducing its own GHG emissions before considering offsetting.

Eskom's (South Africa's sole electricity utility) JET strategy indicates how it plans to reduce its reliance on coal for electricity generation from its current base of 77% of the total energy mix to 7% by 2050.

While we have already reduced our GHG emissions through our paperless and digital business strategies, and the recent PV solar array installation at our head office, Eskom's JET strategy will effectively reduce Capitec's Scope 2 emissions by 90% by 2050, making it clear where Capitec should prioritise its own decarbonisation strategy.

**Financing goals**

We are still in the process of reviewing our Scope 3 financed emissions (emissions associated with financing and investment activities). Financed emissions will be reviewed along our journey to setting science-based targets, and our aim is to align with the Partnership for Carbon Accounting Financials (PCAF) reporting framework as far as reasonably possible, across its 7 defined asset classes. This will further enable Capitec to measure and disclose our GHG emissions on our loan and investment portfolio based on a consistent standard that is widely being adopted by financial institutions.

Financing policy

Capitec's business strategy has never included corporate financing for carbon-intensive assets (i.e., assets or organisations tied to energy and utilities, excluding water and renewable electricity production, with a relatively high level of direct or indirect GHG emissions). Our Business bank division focuses primarily on entrepreneurs and SMEs.

In line with our financing exclusion list, we do not provide corporate financing (i.e., provide corporate credit lines and lending, project and infrastructure finance, or fixed income underwriting), nor have we ever, towards new projects or the expansion of existing projects in the following industries:

- Coal mining (the extraction of thermal coal)
- Coal power (the burning of coal at coal-fired power plants for generation of energy)
- Coal infrastructure (railway lines and trains, or ships and barges used to transport coal, pipelines or coal processing plants)

- Tar sand (sand and clay mixed with heavy crude oil)
- Shale oil and gas (natural gas/oil found within rock and accessed through hydraulic fracturing)
- Arctic oil and gas (oil and gas exploration, development and production in the Arctic region)
- Liquefied natural gas (extraction, transport, liquefaction and re-gasification of gas derived from fossil fuels)
- Deep and ultra-deep-water oil and gas (water depths greater than 300m and 1 500m, respectively)
- Oil and gas infrastructure (railway lines and trains, or ships and barges used to transport oil and gas, pipelines or refineries).

Note: The above equally refers to our investment policy (active investments, passive investments and third-party managed investments).

Innovation

Our new strategic initiatives department is currently looking into innovative solutions to support our clients who want to reduce their carbon footprints. The initial focus is on our real estate portfolio where we could have a significant impact on financed assets' energy efficiency and the installation of renewable energy and sustainable water usage solutions. In addition to specialised green mortgage products, other personal financing will also be considered, for example, loans for energy efficiency or renewable energy, or even purpose lending for electric vehicles or electric vehicle charging stations. Partnerships with major retailers, car manufacturers and utility companies would assist in gathering appropriate financed emissions data.

Biodiversity supplement

The strength of our economies is inextricably linked to the health of nature. Yet most organisations are not accounting for nature-related risks and opportunities. Businesses are failing to consider how their supply chains, own operations and value chains depend on, and impact, natural resources.

Economic activity depends on natural capital. The natural world is, however, in crisis, with nature deteriorating worldwide at a faster pace than any time in human history. Continuing along the current global path of underinvestment in nature presents extreme risks and uncertainty for our economies, financial systems and society.

Nature-related risks emanate from the realms of land, ocean and freshwater, and the atmosphere (climate change and air quality) and include biodiversity loss and ecosystem degradation. Although distinct from climate risk, there is a definite nexus between the two. The main risk drivers for the decline in natural resources and processes include climate change, resource exploitation (deforestation and unsustainable agricultural practices), land and sea use change and loss of biodiversity (variety of living organisms in a particular habitat).

Planetary boundaries

Planetary boundaries provide a framework for tracking the planet's ability to support human development. It defines a safe operating space for humanity with respect to the systems and processes that govern the stability of Earth's atmosphere, oceans and ecosystems. While the impacts of climate change are already familiar, the planetary boundaries framework outlines 8 additional Earth systems that, if destabilised beyond a defined level, could trigger a tipping point and lead to irreversible environmental changes.

The latest research shows that the impact of human activity is already extending beyond the safe operating space for at least 4 planetary boundaries: biodiversity loss, chemical and plastic pollution, nutrient pollution and GHG emissions.

But all hope is not lost. Research suggests that companies have the potential to help humanity to return to a safe operating space by 2050.

Our response

Given all the demands facing companies in a challenging macroeconomic environment, it can be hard to know where to start. While still in draft, we aim to start aligning to the Task Force on Nature-related Financial Disclosures reporting framework. We will follow the **LEAP** process:

- Locating the interface between our business and nature by assessing our nature footprint
- Evaluating mutual dependencies and impacts categorised per type, magnitude and materiality
- Assessing risks and opportunities to define a nature-related risk strategy, including mitigation measures to reduce our dependencies and impacts on natural capital, and identifying and pursuing related business opportunities
- Preparing a response to identified risks and opportunities, setting targets, defining a set of actions with clear time frames, integrating them into our core business strategies, and monitoring and reporting on progress against these targets.

As a start, we made use of the World Wide Fund for Nature (WWF) Risk Filter Suite to better understand our current biodiversity risk landscape. While the risk assessment is very high-level, it does provide guidance on the way forward including the more detailed upstream and downstream dependency and impact assessment we are planning.

Biodiversity risk


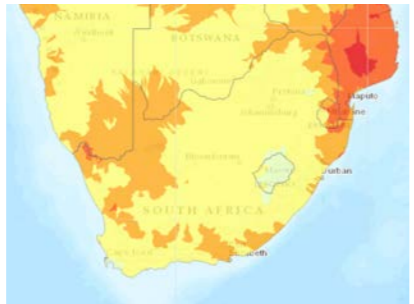

Like climate-related risks, nature-related physical risks could significantly impact our revenue i.e., cost increases or loss of revenue based on direct dependencies and impacts of our business activities on the ecosystem and biodiversity, excluding dependencies or impacts that occur through our supply chain.

Based on the Biodiversity Risk Filter indicators selected, Capitec's biodiversity risk profile (dependencies and impacts) is detailed below.

Number	Biodiversity Risk Filter indicators	Impact/dependency	Offices and professional services
Physical Risk			
Provisioning Services			
1.1	Water Scarcity	Dependency	Low
1.2	Limited Timber Availability	Dependency	N/A
1.3	Limited Wild Flora and Fauna Availability	Dependency	N/A
1.4	Limited Marine Fish Availability	Dependency	N/A
Regulating and Supporting Services – Enabling			
2.1	Soil Condition	Dependency	N/A
2.2	Water Condition	Dependency	Low
2.3	Air Condition	Dependency	Medium
2.4	Ecosystem Condition	Dependency	N/A
2.5	Pollination	Dependency	N/A
Regulating Services – Mitigating			
3.1	Landslides	Dependency	High
3.2	Wildfire Hazard	Dependency	Medium
3.3	Plant/Forest/Aquatic Pests and Diseases	Dependency	N/A
3.4	Herbicide Resistance	Dependency	N/A
3.5	Extreme Heat	Dependency	High
3.6	Tropical Cyclones	Dependency	High
Cultural Services			
4.1	Tourism Attractiveness	Dependency	N/A
Pressures on Biodiversity			
5.1	Land, Freshwater and Sea Use Change	Impact	Very Low
5.2	Deforestation	Impact	Very Low
5.3	Invasives	Impact	N/A
5.4	Pollution	Impact	Low
Environmental Factors			
6.1	Protected/Conserved Areas	Impact	Very Low
6.2	Key Biodiversity Areas	Impact	Very Low
6.3	Other Important Delineated Areas	Impact	Very Low
6.4	Ecosystem Condition	Impact	Very Low
6.5	Range Rarity	Impact	N/A

Number	Biodiversity Risk Filter indicators	Impact/dependency	Offices and professional services
Reputational Risk			
Socioeconomic Factors			
7.1	Indigenous Peoples; Local Communities; Lands and Territories	Impact	Very Low
7.2	Resource Scarcity: Food - Water - Air	Impact	N/A
7.3	Labour/Human Rights	Impact	Low
7.4	Financial Inequality	Impact	Low
Additional Reputational Factors			
8.1	Media Scrutiny	Dependency	Medium
8.2	Political Situation	Dependency	Very Low
8.3	Sites of International Interest	Dependency	N/A
8.4	Risk Preparation	Dependency	Low

Focusing on the high dependency risks, further analysis provides additional insights:

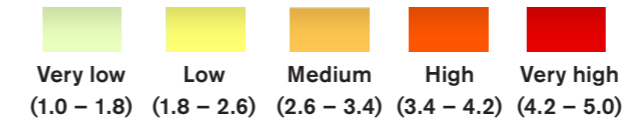
Landslide	Extreme heat	Tropical cyclone
 <p>This indicator assesses the potential threat of landslides based on rainfall patterns, terrain slope, geology, soil, land cover and (potentially) earthquakes.</p> <p>Landslides impose significant risks to human lives and economic activities. Landslides have become more prevalent because of land-use changes and more extreme precipitation due to climate change.</p>	 <p>This indicator assesses the threat of extreme heat during a 5-year return period.</p> <p>Extreme heat has an obvious impact on human health, but it is also relevant to a wide array of economic activities and industries. With climate change, the frequency and the intensity of abnormal weather and extreme temperature patterns have dramatically increased, and the shift to warmer temperatures, driven by climate change, will only exacerbate this phenomenon.</p>	 <p>This indicator assesses the predicted maximum wind speed on a 50-year return period.</p> <p>Storms can impact companies and value chains through a variety of ways, including building and property damage, flooding or power outages, which may lead to temporary or permanent company closures and loss of revenue.</p>



Source: World Wide Fund for Nature Risk Filter Suite 2023 (WWF Biodiversity Risk Filter – Explore Maps)

Water risk

The WWF's Water Risk Filter, specific to South Africa, provides a risk score out of 5 (area-weighted average risk score, based on a global dataset, using average industry weighting), as well as a ranking indicator (based on average risk score across 251 countries and territories, with rank 1 representing country or territory of least risk).



Physical risk	Risk score	Ranking
Water scarcity	3.41	172
Flooding	2.72	100
Water quality	3.94	125
Ecosystem services status	3.21	197

Regulatory risk	Risk score	Ranking
Enabling environment	1.13	42
Institutions and governance	2.01	38
Management instruments	1.72	48
Infrastructure and finance	2.91	135

Reputational risk	Risk score	Ranking
Cultural importance	2.00	92
Biodiversity importance	2.35	26
Media scrutiny	3.53	165
Conflict	3.24	182

Source: World Wide Fund for Nature Risk Filter Suite 2021 (WWF Water Risk Filter – Maps)

Moving forward

The plan below maps out Capitec's short-, medium- and long-term plans for its own climate journey and its intentions to align to appropriate global reporting frameworks and industry best practice with regard to its climate-related financial disclosure.

Short term (next 12 months)	Medium term (1 to 5 years)	Long term (5+ years)
Governance		
<ul style="list-style-type: none"> Ethics alignment ESG benchmarking Expand KPIs (board, executive) Continuous monitoring of regulatory developments and requirements Improve industry participation through BASA Perform Principles for Responsible Banking self-assessment 	<ul style="list-style-type: none"> Conform to future local and international climate-related regulatory requirements Improve risk visibility through expanded reporting to the RCMC for different risk types 	<ul style="list-style-type: none"> Continue to provide the board with updates on strategy implementation and climate-related risks and opportunities
Strategy		
<ul style="list-style-type: none"> Improve strategic alignments, including suppliers and third parties Improve ESG ratings by improving public disclosure NBI collaboration Continuous assessment of business operations to identify opportunities to reduce our carbon footprint Continued drive for digital banking solutions Employee engagement and training (dedicated sustainability hub on company intranet, awareness campaign and quarterly newsletter) 	<ul style="list-style-type: none"> Continue to innovate and improve digital product and service offerings that yield a lower carbon footprint Review strategies to reduce electricity consumption Review and consider new viable technological improvements towards carbon-friendly alternatives for energy/electricity requirements Research and consider business opportunities to expand the business into areas that will benefit from the transition to environmentally friendly products and services Review climate change risk opportunities and measurements through our suppliers, outsourced services and business partners 	<ul style="list-style-type: none"> Continuously protect and improve Capitec's reputation as an environmentally responsible corporate citizen Contribute in a meaningful way to the global mitigation of risks arising from climate change
Risk management		
<ul style="list-style-type: none"> Review and update the CSST to quantify the impact of the severe climate risk scenario Monitor stakeholder expectations and address concerns in appropriate forums Physical risk assessment and review approach for quantifying transition risk 	<ul style="list-style-type: none"> SARB CSST 2024 Consider mitigation strategies for credit exposure to sectors vulnerable to transition risks Reputational risk: monitor stakeholder expectations and concerns Monitor changes in demand and client needs Advance Capitec's internal climate change risk management capabilities 	<ul style="list-style-type: none"> Improve analytical stress test capabilities to improve strategic insights and responses Understand the impact of regulatory requirements and targets on carbon-intensive industries to navigate risks and capitalise on potential opportunities

Short term (next 12 months)	Medium term (1 to 5 years)	Long term (5+ years)
Metrics and targets		
<ul style="list-style-type: none"> Improve and expand our climate-related disclosure, with considerations for emerging best practices and science-based targets Review extent of quantifying Scope 3 financed emissions and the way forward Engage with the Science-based Target Initiative to commence the science-based target-setting journey and drafting of a transition plan, including assessing and understanding the requirements to become carbon-neutral 	<ul style="list-style-type: none"> Consider the PCAF to assess and disclose GHG emissions on loans and investments Improve target-setting and quantitative objectives External assurance of carbon accounting 	<ul style="list-style-type: none"> Align quantitative target-setting with regulatory requirements and incorporate new opportunities and developments into climate risk strategy



Annexure A

Industry participation and advocacy



BASA provides a platform for South African banks to collaborate and align on an industry level around climate-related risks through several forums.



The NBI is a voluntary coalition of South African and multi-national companies working towards sustainable growth and development in South Africa. Capitec became a member of the NBI in February 2023. We are committed to supporting their involvement in environmental and transformation initiatives.



- Capitec aligns its business strategies with the UN Global Compact's SDGs.
- Although Capitec is not a signatory to the UNEP FI, we aim to perform self-assessments to align with its principles over time. These will include:
 - Net-zero Banking Alliance
 - Principles for Responsible Banking
 - Principles for Responsible Investment.

Capitec considered participation in the Climate Disclosure Project but decided to focus its efforts on alignment with the TCFD reporting framework.

Climate-related reporting frameworks and ESG ratings



While this report materially aligns with the TCFD recommendations as a framework to report against, Capitec will, over time, incorporate more granular aspects of these recommendations into its reporting. We intend to continually expand and refine our reporting to ensure that climate-related risks and opportunities are considered and integrated into all areas of our business activities.

GHG protocol

Capitec aligns its reporting on its GHG emissions to the GHG Protocol, which is widely recognised and referenced by many standards and frameworks for measuring GHG emissions.

S&P Global

S&P Global's CSA provides an assessment of a company's sustainability practices. Investors typically use this evaluation to determine a business' readiness for disruptive ESG risks and opportunities. In the past year, Capitec actively participated in S&P Global's CSA 2022 and managed to improve its score by 23%.



Although not a primary focus in the past 12 months, Thomson Reuters is one of the larger and more reputable providers of company ESG risk ratings. We envisage engaging with them during their upcoming annual ESG assessment.



Although not a primary focus in the past 12 months, Sustainalytics is one of the larger and more reputable providers of company ESG risk ratings. We envisage engaging with them during their upcoming annual ESG assessment.

Annexure B

Towards alignment with the TCFD reporting framework

	Recommendation	Detailed description	Capitec's response	Pages
Governance	Disclose the organisation's governance around climate-related risks and opportunities.	<ul style="list-style-type: none"> • Describe the board's oversight of climate-related risks and opportunities 	<p>Capitec's board and board committees recognise climate change as a relevant risk and opportunity for the organisation and therefore provide robust oversight of climate-related policies and strategies.</p> <p>Work in progress Board oversight over progress against goals and targets once science-based targets have been set and a transition plan drafted.</p>	12 to 13
			<ul style="list-style-type: none"> • Describe management's role in assessing and managing climate-related risks and opportunities 	<p>EXCO takes responsibility for the day-to-day management of climate-related risks and opportunities and the implementation of related strategies. ESG-related KPIs have been added to executive performance measurements for the upcoming financial year.</p>
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material.	<ul style="list-style-type: none"> • Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term 	<p>Capitec has identified its most material climate-related risks – both from a Capitec and climate change perspective (double-materiality) – over time horizons aligned with the life cycles of its credit product offering. It has also started to explore related opportunities.</p> <p>Work in progress Mature description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation.</p>	17 to 33
			<ul style="list-style-type: none"> • Describe the impact of climate-related risks and opportunities on the organisation's business strategy and financial planning 	

	Recommendation	Detailed description	Capitec's response	Pages
Strategy continued		<ul style="list-style-type: none"> Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including the 2°C or lower scenario 	<p>A high-level CSST was conducted in 2021. Preparation and model development is underway for an extensive CSST in 2024.</p> <p>Work in progress</p> <p>Expand on CSST scenarios, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower scenario and scenarios consistent with increased physical climate-related risks.</p>	34 to 36
Risk management	Disclose how the organisation identifies, assesses and manages climate-related risks.	<ul style="list-style-type: none"> Describe the organisation's processes for identifying and assessing climate-related risks Describe the organisation's processes for managing climate-related risks Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management 	<p>Capitec views climate change not as a stand-alone risk category, but rather one integrated into each risk type's risk identification, evaluation, monitoring and reporting procedures.</p> <p>We subscribe to the 3 lines of defence framework which enhances the understanding of risk management and control in the first line of defence to ensure and maintain objectivity and independence in the end-to-end risk management process.</p>	38 to 41
Metrics and targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	<ul style="list-style-type: none"> Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process 	<p>Capitec uses several metrics to calculate its carbon footprint and in so doing, identifies, assesses and manages climate-related risks and opportunities. We are still in the process of improving data quality in our carbon accounting and have in the past year engaged extensively with external industry experts.</p> <p>Work in progress</p> <p>Match metrics with specific climate-related risks (physical and transition) in our financing and investment activities.</p> <p>Assess the extent to which our financing and investment activities are aligned with a well below 2°C scenario.</p>	44 to 45

	Recommendation	Detailed description	Capitec's response	Pages
Metrics and targets continued		<ul style="list-style-type: none"> Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions and the related risks 	<p>Significant progress has been made in the past year to improve the measurement of our GHG emissions, with the focus in the next year shifting to expanding on our Scope 3 emissions, including financed emissions.</p> <p>Work in progress</p> <p>Scope 3 GHG emissions (including financing and investment activities), calculated in line with the GHG Protocol and PCAF, with associated methodologies, calculations and assumptions documented in detail.</p>	45 to 47
		<ul style="list-style-type: none"> Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets 	<p>Our initial operations targets were intensity-based, aiming to reduce, or at least maintain, our Scope 1 and 2 emissions per full-time employee and m² floor space occupied which we are of the opinion is not sufficient. We are therefore committed to moving towards setting science-based targets and aim to embark on this journey in the coming financial year.</p> <p>Work in progress</p> <p>Commence the science-based target-setting journey, which will also see us draft a transition plan aligned with the goals set by the Paris Agreement.</p>	48 to 49

Annexure C

Abbreviations

Term/ Abbreviation	Definition
AFOLU	Agriculture, forestry and other land use
ALCO	Asset and liability committee
ATM	Automated teller machine
AWS	Amazon Web Service
B&C	Buildings and construction
BASA	Banking Association South Africa
BCC	Business bank credit committee
BEV	Battery electric vehicle
board	Group board of directors
Capitec	Capitec Bank Holdings Limited and its subsidiaries
CCUS	Carbon capture, usage and storage
CEO	Chief executive officer
CFO	Chief financial officer
CH ₄	Methane
CIT	Cash-in-transit
cm	Centimetre
CO ₂	Carbon dioxide
CO ₂ e	Carbon dioxide equivalent
CRO	Chief risk officer
CSA	Corporate Sustainability Assessment
CSI	Corporate social investment
CSST	Common Scenario Stress Test
DAC	Directors' affairs committee
DNR	Dual note recycler
ERM	Enterprise risk management
ESG	Environmental, social and governance
EXCO	Group executive committee
FCEV	Fuel cell electric vehicle
GFT	South African Green Finance Taxonomy, March 2022
GHG	Greenhouse gas
HM	Hydrogen manufacturing
H ₂	Hydrogen
HFC ₃	Hydrofluorocarbon
ICE	Internal combustion engine
IFRS	International Financial Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
JET	Just Energy Transition
JSE	Johannesburg Stock Exchange
kg	Kilogramme

Term/ Abbreviation	Definition
King IV™	King IV Report on Corporate Governance for South Africa, 2016™
kl	Kilolitre
KPI	Key performance indicator
KRI	Key risk indicator
kWp	Kilowatt peak
LED	Light-emitting diode
m	Metre
m ²	Square metre
mm	Millimetre
MOS	Management operating system
MtCO ₂ e	Metric tons of carbon dioxide equivalent
MWh	Megawatt hour
N ₂ O	Nitrous oxide
NBI	National Business Initiative
NDC	Nationally Determined Contribution
PA	Prudential Authority
PCAF	Partnership for Carbon Accounting Financials
PFC ₃	Perfluorocarbon
PV	Photovoltaic
QR	Quick response
RBP	Risk business partner
RCC	Retail bank credit committee
RCMC	Risk and capital management committee
REMCO	Remuneration committee
RISCO	Risk committee
RROC	Risk and regulatory oversight committee
SARB	South African Reserve Bank
SDG	Sustainable Development Goal
SESCO	Social, ethics and sustainability committee
SF ₆	Sulphur hexafluoride
SIM	Subscriber identity module
SMEs	Small- and medium-sized enterprises
TCFD	Task Force on Climate-related Financial Disclosures
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
USSD	Unstructured Supplementary Service Data
WWF	World Wide Fund for Nature
ZEV	Zero emission vehicle

Annexure D

Let's find the solution together!

E	O	K	E	E	N	C	I	Q	S	G	L	O	B	A	L	W	A	R	M	I	N	G	C
T	W	D	E	N	J	L	A	T	E	A	C	S	K	E	M	T	O	R	K	X	S	A	A
A	X	E	A	A	R	I	E	E	S	A	N	L	D	J	N	S	E	K	L	M	Z	X	R
D	G	P	A	H	C	M	H	E	A	S	O	I	I	I	A	I	V	L	O	P	N	N	B
A	I	M	Q	T	C	A	T	C	G	M	X	E	R	M	C	G	B	C	T	S	I	P	O
P	R	Z	W	E	H	T	L	V	E	O	H	P	O	A	A	Q	U	E	U	L	W	U	N
T	V	W	K	M	Y	E	D	X	S	R	T	B	L	H	K	T	P	L	Z	W	V	C	D
A	F	T	I	H	Y	Y	R	U	U	O	V	G	T	S	J	W	E	C	R	Z	V	D	I
T	Y	Z	J	A	D	I	O	B	O	B	X	I	G	H	Q	H	R	C	S	L	U	M	O
I	Q	A	J	W	F	R	I	F	H	O	L	M	X	U	U	L	I	A	H	H	S	H	X
O	C	I	E	R	T	X	N	I	N	G	I	R	I	A	U	G	X	P	U	A	P	X	I
N	P	W	H	I	F	O	A	W	E	F	O	S	S	I	L	F	U	E	L	S	N	V	D
I	G	C	N	M	B	X	R	C	E	X	O	V	I	I	J	R	H	P	X	D	G	G	E
Z	N	E	Q	R	K	N	V	B	R	B	S	V	O	Q	E	L	E	T	J	I	B	Q	E
F	H	W	A	E	T	L	J	B	G	M	Q	C	H	T	A	O	D	O	A	R	X	J	K
B	J	C	M	U	B	G	I	C	W	X	M	I	T	I	G	A	T	I	O	N	L	N	E

Adaptation

Carbon dioxide

Carbon footprint

Climate

Climate change

Fossil fuels

Glacier

Global warming

Greenhouse gases

Methane

Mitigation

Weather



