Climate-related Financial Disclosure **2022**

CAPITEC
BANK
HOLDINGS LIMITED

Contents

The report structure is similar to that of the Task Force on Climate-related Financial Disclosures (TCFD)
28 February 2022

The bank for

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

Message from the Chief Executive Officer

We care about the impact of our business on the environment and will continue to go to great lengths to manage it. This report, the first stand-alone climate-related financial disclosure for Capitec Bank Holdings Limited, is an outcome of increased internal focus on managing our environmental, social and governance (ESG) risks. The report summarises where we are in our climate risk journey and the way forward for our business as we collaborate with local industry and regulators in the fight against unsustainable environmental practices.

Our purpose

To enable everyone to improve their financial lives and live better

Our core values

live ceo

Client first | Energy | Ownership

Our 4 fundamentals

Simplicity

Accessibility

Affordability

Personalised experience

Read more on page 25 of the integrated annual report.

Our strategic objectives

Client experience

Client quality

Digital

World-class data business

Business delivery

People

New capabilities

Read more from page 36 of the integrated annual report.

Our business exhibits a low carbon footprint as evidenced by our carbon footprint per full-time employee (refer to Industry benchmarking on page 34). The reason for this is twofold:

Firstly, our client base has predominantly been in retail banking where we provide banking and financial services to individuals in an affordable and convenient manner. Our focus is on providing a retail offering that is paperless and relies on technology, and contributes to us having a lower carbon footprint.

Capitec owes its existence to our ability to serve our clients as we democratised banking services in South Africa by making them easy to understand, accessible, affordable and delivered through a personalised service experience. Our client base of over 18 million, of which 6.6 million actively use our Capitec banking app, bears testimony to the difference we are making in people's lives. We have 10.1 million active digital users of the banking app, USSD channel, internet banking or a combination of digital channels. Our clients performed 1.4 billion digital transactions for the year. More recently, we supplemented our service channels with remote onboarding capabilities in addition to internet and mobile banking services. These digital channels are notably more environmentally friendly and leave a significantly lower carbon footprint than contemporary brick and mortar branch services and cash transactions. Our digital success is therefore also an environmental achievement. Our business banking focuses predominantly on small- and medium-sized enterprises (SMEs), and we have very low or no exposure to industries that are considered carbon-heavy.

Secondly, we have focused on, and improved, several internal operational processes over the years, reducing our impact on the environment.

For example, we have easily accessible recycling facilities at all our campuses. Our new head office building in Stellenbosch was designed and constructed with environmentally friendly functionality such as advanced energy and water usage efficiencies. But most notably, our drive towards paperless banking brought about large reductions in the use of paper and other consumables. Furthermore, our roll-out of dual note recyclers (DNRs) that recycle ATM cash deposits vastly reduced the need for cash-in-transit (CIT) services.

We believe that everything we undertake must add value; hence our climate risk strategy is integrated with our business strategy (refer to Integration with strategy on pages 12 to 25). It is in this spirit that we pursue our climate risk strategy as we collaborate with business, government and other stakeholders to play our part in protecting our planet.

Gerrie Fourie
Chief executive officer

Foreword from our Chief Risk Officer

This report, our inaugural stand-alone climate-related financial disclosure, is a voluntary disclosure that aims to create greater visibility around Capitec's climate change risk mitigation journey. It demonstrates our commitment to, and focus on this priority as we continue to improve and expand in this discipline going forward. This report demonstrates that our journey to provide innovative products and services has already yielded positive environmental outcomes.

There were several important developments regarding climate risk, especially over the past year, as the challenge of addressing climate change gained momentum. Respondents to the 2022 World Economic Forum Global Risks Perception Survey cited 5 environmental risks in the top 10 global risks with potentially the most severe impact over the next decade. It ranked 'climate action failure' as the number one risk.

The Conference of the Parties, commonly referred to as COP, is the conference for the United Nations Framework Convention on Climate Change which has taken place annually since 1995. Nations and stakeholders convened at the 26th meeting in Glasgow, COP26, during November 2021 and made considerable progress on a global strategy and framework that will guide nations, governments, businesses, and relevant stakeholders through the process of implementing changes within their respective jurisdictions and operating environments.

Various countries around the world are encouraging or mandating disclosures based on the TCFD framework. The TCFD principles are further supported by the G7, G20, European Commission, Financial Stability Board, International Financial Reporting Standards (IFRS) Foundation and the International Organisation of Securities Commissions. The global adoption and logical construct of the TCFD framework prompted our alignment to the framework for our climate-related financial disclosure. The TCFD outline is based on the following pillars:

- Integration with governance
- Integration with strategy
- Integration with risk management
- Metrics and targets.

From a governance point of view, our social and ethics committee (SEC) changed its name to social, ethics and sustainability committee (SESCO) to signify its focus, intent and commitment towards climate risk.

The South African Reserve Bank (SARB) will play an important role in setting standards and requirements by means of regulation and has proactively included climate risk management as part of its prudential oversight for some time.

Reputable credit rating agencies have signalled more comprehensive weighting of ESG in their credit rating assessments. It is therefore important, from a funding perspective, to maintain an appropriate ESG strategy and to disclose the required information. We focus on climate risk in this report as part of a more comprehensive ESG strategy.

We understand that 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 acknowledge that certain clients are vulnerable to the direct effects (physical risks) and transitional risks stemming from climate change. An assessment of our present exposure to climate change risk showed that our client base in general has limited direct exposure to the physical risks posed by climate change risk events in the immediate short-term future. On an idiosyncratic level, we were able to identify the areas most exposed to physical climate change risks and will continue to monitor those to protect our client base. We will continue to review opportunities to increase our resilience against the effects of climate change risk by following our enterprise risk management (ERM) process and supporting disciplines such as stress testing.

We have been able to offer products and services by innovatively leveraging technology and data analytics that remain true to our principles of simplicity, accessibility, affordability and personalised service. These innovations yielded substantial improvements in our carbon footprint (refer to operational efficiency and digital strategy on page 16), which demonstrates that our business and climate change risk strategy are aligned. We will continue to drive our digital banking strategy going forward and have launched remote onboarding and quick response (QR) payments, along with a series of improvements to our product and service offerings through digital channels.

Internally, we are creating additional capacity to coordinate and improve our climate change risk mitigation strategy. We have used experienced consultants on our climate change risk mitigation journey and will continue to use their services for expert input. This will enable us to improve our public disclosure to demonstrate our contribution and collaboration with stakeholders in the effort to address climate risk.

We understand that all our stakeholders are, in essence, people and that climate change risk poses a threat to the sustainable existence of humankind. As a bank of the future, we are committed to contributing meaningfully to meeting the global challenge to address climate change risk and ensuring a sustainable existence for generations to come.

Nkosana Mashiya
Chief risk officer

Introduction

Capitec Bank Holdings Limited is listed on the Johannesburg Stock Exchange Limited (JSE) equity market and complies with the 16 applicable principles of the King IV Report on Corporate Governance for South Africa, 2016™ (King IV™).

The summary of our responses to the King IV™ principles, with references to our integrated annual report, is available on the investor relations hub on the Capitec website **https://www.capitecbank.co.za/investor-relations/**.

This report is our first stand-alone climate disclosure report, and we aim to improve and expand reporting going forward to ensure that we align to the recommended disclosures of the TCFD framework.

Climate risk management is an important component of our broader ESG strategy, which is a priority for the business.

Assurance statement

We have a series of internal policies, procedures and controls in place to ensure that accurate data is provided. Our group SESCO provides oversight of this report. No external assurance was provided on any data in this report.

Developments in the ESG space

Frameworks and regulations: International and local

The most recent global climate risk reporting developments have shown a converging trend on frameworks and standard-setting institutions which include the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board (SASB).

They are working towards a comprehensive corporate reporting system for sustainability disclosure, including climate-related reporting, along with the TCFD recommendations. At the end of 2021, the IFRS Foundation announced the formation of a new International Sustainability Standards Board, which is consolidating with the CDSB, an initiative of the CDP, and the Value Reporting Foundation (which houses the Integrated Reporting Framework and the SASB Standards) by June 2022. Together with this announcement, they have also released their prototypes for climate and general disclosure requirements.

On 9 December 2021, the JSE published draft disclosure guidance around sustainability and climate change disclosure which draws on many of the existing sustainability and climate disclosure frameworks. Notwithstanding that these guideline documents are voluntary in nature, we will continue to monitor further developments.

How to read this report

The remainder of the report covers 4 main climate risk areas, namely governance, strategy, risk management and metrics and targets.

The integration with governance section provides an overview of prevailing legislation as well as internal processes pertaining to corporate governance and the policy framework.

The integration with strategy section shows how our climate risk strategy is integrated with our business strategy and the results it has yielded to date. We also discuss our high-level strategic roadmaps for managing physical- and transition risks and our approach to business opportunities.

In the integration with risk management section we discuss our approach to climate risk management in the business and work done to date.

Lastly, the metrics and targets section contains our Greenhouse gas (GHG) emission disclosures and targets.

Industry participation and advocacy

Capitec will consider the following industry forums and frameworks for participation and collaboration:

THE BANKING ASSOCIATION SOUTH AFRICA

The Banking Association South Africa (BASA) provides a platform for South African banks to align and collaborate on an industry level around climate risk. BASA also established working groups for themed discussion e.g., the TCFD.

UN environment programme | finance initiative

The United Nations Environment Programme Finance Initiative (UNEP FI) published the Principles for Responsible Banking (UN PRB). The principles provide a framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Agreement.

CDP
DISCLOSURE INSIGHT ACTION

Carbon Disclosure Project (CDP) is a global not-for-profit organisation that assesses ESG disclosures. Many of the large and mid-sized listed companies in South Africa voluntarily report against CDP annually and their ratings are commonly used by investors and other stakeholders to assess the standard of environmental reporting. Capitec will focus on their assessment criteria during the coming financial year.

Other frameworks that are used as reference for future strategy maturity:

- UNEP FI
- UN Principles for Responsible Investment (UN PRI)
- UN Global Compact (UNGC)
- Equator Principles
- Net Zero Banking Alliance

Climate-related frameworks and ESG ratings

We are aware of several international climate risk frameworks and initiatives as well as ESG ratings and envisage the following for our climate risk and ESG journey:

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The TCFD disclosure standard is widely adopted and provides a meaningful structure for climate risk disclosure.

We envisage using this framework going forward and expect regulatory reporting requirements to follow a similar structure and content.

SUSTAINALYTICS

Sustainalytics is one of the larger and more reputable providers of company ESG risk ratings. Capitec will focus on the assessment criteria for Sustainalytics going forward.

We envisage engaging with Sustainalytics during the upcoming annual ESG assessment.

S&P Global

S&P Global's ESG evaluation provides an assessment of a company's ESG strategy as well as the ability to prepare for potential future risks and opportunities. Investors typically use this evaluation to determine a business' readiness for disruptive ESG risks and opportunities.

We are engaging with S&P Global and envisage participating in their upcoming annual ESG assessment.

Integration with governance

The following salient climate-related legislative and governance matters are considered:

Climate Change Bill of 2022

President Cyril Ramaphosa established the Presidential Climate Commission which aims to support South Africa's transition towards a low-carbon, climate-resilient economy and society in December 2020.

Recently, we saw the publication of the Climate Change Bill of 2022. The Bill, in its present form, does not impose regulatory standards or requirements, although it establishes a foundation and mechanism for future regulatory expansion. 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 emission targets. We expect further regulatory expansion and will continue to monitor developments.

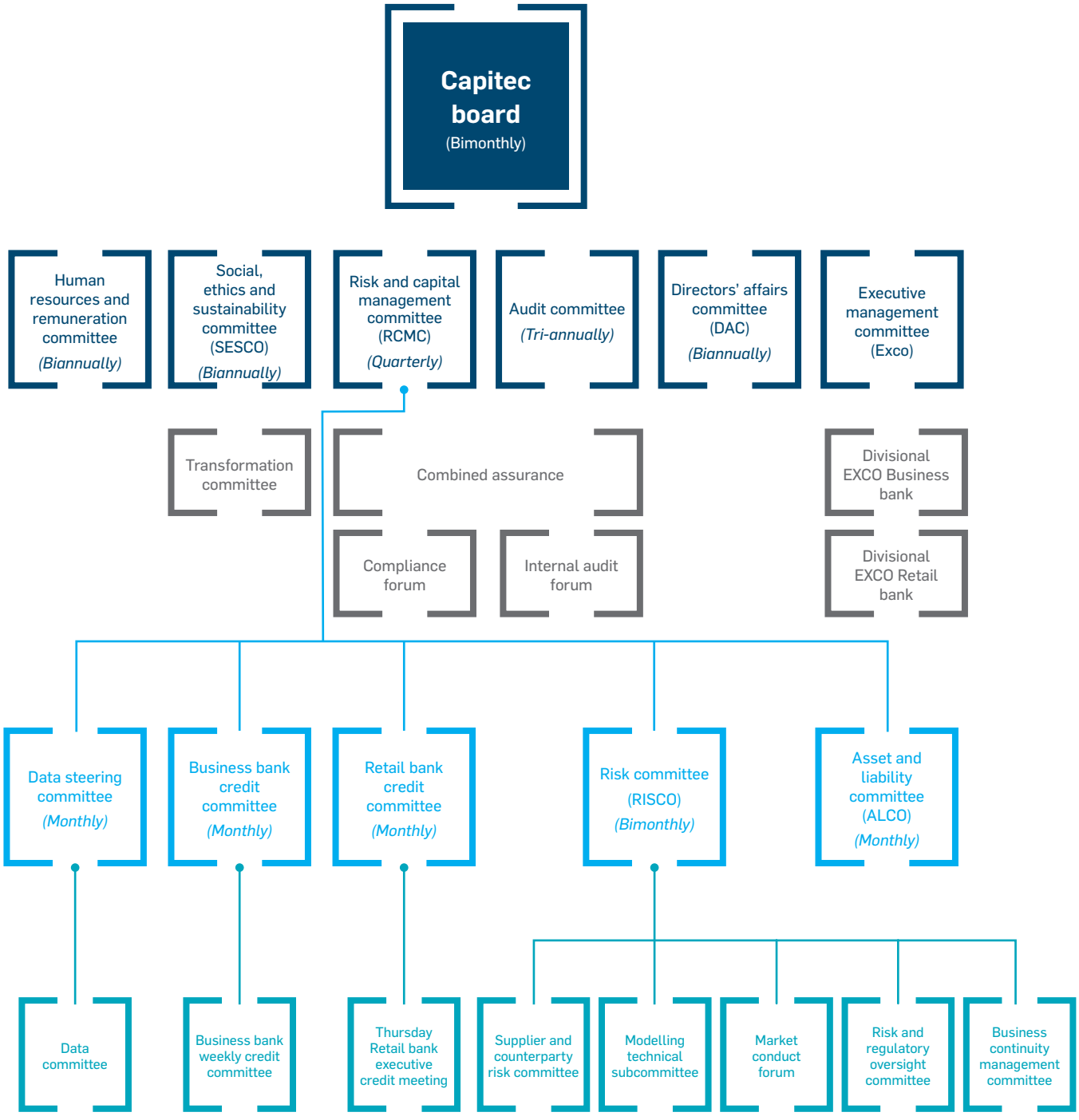
Corporate governance

Our commitment to the responsible management and oversight of climate change risk is reflected in our risk governance structure. Climate change risk is a priority for our board and executive management.

Capitec board of directors (board)

The board is ultimately responsible for ESG risk management, incorporating climate change risk, and has delegated this responsibility to the SESCO. The SESCO meets biannually and monitors activities relating to social and economic development, good corporate citizenship and the environment to promote the collective well-being of society, thereby facilitating the sustainable growth of the group. The SESCO's terms of reference include the monitoring of the UNGC Principles, the impact of the company's activities, setting strategic objectives for sustainability and the monitoring of ESG management.

Capitec's risk governance structure



The social and ethics committee (SEC) meeting of November 2021 reviewed the high-level ESG strategy and reiterated the importance thereof. ESG is a standard agenda item for the SEC. The SEC further demonstrated its intent for greater ESG focus by changing its name to the social, ethics and sustainability committee (SESCO).

In line with the requirements of regulation 43 of the Companies Act, the SESCO's terms of reference include the monitoring of the UNGC Principles, the impact of the company's activities, setting strategic objectives for sustainability and the monitoring of ESG management.

The SESCO considers the climate risk strategy, risk management approach and business plan. During the 2023 financial year, the SESCO will review a more detailed climate risk strategy with quantifiable objectives against which progress can be measured which will be reviewed at biannual SESCO meetings.

Furthermore, key risks are reported to the RISCO along with risk mitigation plans and timelines for implementation. Key risks are also reported to the RCMC.

Executive management

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

- Gerrie Fourie, our chief executive officer, 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. We elaborate in the Strategy section on how Capitec has produced several positive climate change outcomes through our business strategy.
- Our chief risk officer, Nkosana Mashiya, is responsible for ensuring that risks are duly managed and reported to the relevant board committee. We elaborate in the Risk section on how Capitec managed its climate-related risks.
- André du Plessis, our chief financial officer, 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. For more information, refer to the Metrics and targets section of this report.
- All group and divisional executives support and drive the business strategy within which the climate change risk mitigation-related initiatives are embedded.

Senior management

The risk management forum consists of 20 senior representatives from each division in the business who represent their respective area in a risk capacity. We use these representatives to influence, educate and align the business on risks. This structure improves and matures our risk culture and the efficiency of risk management throughout the business through which we position climate risk and ESG risk.

Internal policy structure

Our environmental policy clearly states that the low carbon-intensive nature of our business, *"this does not detract from the Capitec group's (Capitec and its subsidiaries) desire to restrict its environmental footprint."*

The policy states that we are committed to minimising the impact of our activities on the environment by:

- evaluating operations and ensuring that they are as efficient as possible to minimise waste
- actively promoting recycling both in business operations and among employees
- complying with all environmental legislation that may be applicable to the group
- measuring our carbon footprint and setting targets for ongoing improvement
- promoting environmental awareness among employees e.g., car-pooling.

The policy also covers the environmental approach taken with suppliers and third-party service providers to ensure that services rendered are efficient. Refer to operational efficiency and digital strategy on page 16.

Capitec also has a carbon footprint accounting policy in place and, while not legally enforced in South Africa, companies are expected to disclose and report on their carbon footprints and the measures they have implemented to manage GHG emissions. This is considered key to environmental sustainability. This policy formulates the bank's approach to reporting on GHG emissions as disclosed in the Metrics and targets section.

The following policies also consider climate matters:

- The operational risk management policy includes and defines ESG risk as:
  - *"The risks related to non-achievement of a balanced and integrated economic, social and environmental performance (referred to as the 'triple bottom line') resulting in reputational impairment to Capitec and ultimately loss of business and profitability."*
- The supplier code of conduct also outlines our expectations with respect to suppliers regarding their impact on the environment as follows:
  - *"Suppliers should work with us to promote environmental sustainability. This includes that they assist in reducing our environmental footprint, conduct business in an environmentally responsible way and offer environmentally responsible products and services."*
  - *The supplier code of conduct is available on the Capitec website:* ***https://www.capitecbank.co.za/business-services/procurement/code-of-conduct***.
- The code of ethics policy confirms our "commitment to high ethical standards and the promise to conduct our business honestly, scrupulously and with integrity." Our ethics officer, Monique Palmieri (head: compliance), will drive increased visibility and disclosure around our ethics and anti-bribery and corruption policies and programmes. Our conflict of interest policy is available on the Capitec website: **https://www.capitecbank.co.za/globalassets/pages/documents-library/general/capitec-bank-fais-conflict-of-interest-management-policy.pdf** (capitecbank.co.za). Our data privacy policy is also available on the Capitec website: **https://www.capitecbank.co.za/terms-of-use/.**

We continuously improve our policies and perform annual reviews. All policies are stored centrally and published on a secure internal platform and are securely accessible to the business. Refer to the Capitec website for further policy documents.
https://www.capitecbank.co.za/investor-relations/

Integration with strategy

Capitec's strategic approach

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

Simplicity

Affordability

Accessibility

Personalised experience

Our past and future business strategy revolves around these pillars and supports not only our commitment to reducing the operational footprint, but also our commitment to support our clients.

Retail bank

Acquire and retain quality clients

Excellent client service experience

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

Credit excellence

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

Client quality

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

Create client value (beyond banking)

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

Improve delivery efficiency

People

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

Digitalisation

- Significant increase in app usage
- Digital payments

Business bank

Launch and scale Capitec Business to become an industry leader

Rebranding to Capitec Business

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

Client growth

- Scale our Business bank to become a market leader

Manage scale

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

Transforming credit

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

Improve client experience

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

Shared services

Create the Capitec ecosystem

Business delivery

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

People

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

Technology and data

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

Our overarching strategic objectives are detailed in the integrated annual report on pages 22 to 37. Our climate risk strategy is embedded in these objectives. It includes the continuation of our digital strategy, paperless, increasing app usage, improving digital payments and improving client service experience in Retail bank. In Business bank there is a major digital drive to improve internet banking, automated decision-making and self-service capabilities including remote onboarding.

We understand that sustainability is core to our current and future existence and that our strategy needs to follow a balanced approach to yield a meaningful outcome. We also understand that climate risks will manifest through physical and transition risks in the foreseeable future.

Physical risks are expected to increase as the effects of climate change and global warming manifest in unforeseen adverse weather events such as droughts and floods. These could potentially have a negative impact on clients who might be exposed to such adverse climate events. Furthermore, adverse weather events can disrupt suppliers and business partners, also potentially affecting our product and service offering to clients.

Transition risk is expected to increase as demand is expected to shift towards environmentally friendly alternatives off the back of regulatory requirements, policy changes and new disruptive technologies. Consequently, some clients may be exposed to the risk of a reduction in demand for their more carbon-intensive products and services. There are several drivers of transition risk that can include the following:

- **Legal risk:** Apart from increased costs, there is a risk of compliance-based fines. Also, based on international trends, there is an increasing incidence of climate-related litigation actions.
- **Reputational risk:** If we are perceived as not contributing meaningfully to the mitigation of climate change risk compared to industry peers. The risk can occur because of inadequate public disclosure of our climate change risk mitigation strategy, not meeting regulatory standards, or falling short of public/societal expectations.
- **Technology risk:** Can manifest through advances in technology towards climate-friendly or greener technology solutions.
- **Business risk:** Can manifest through clients losing their jobs as the market transitions away from carbon-intensive products and services towards greener alternatives.

Our approach to aligning our climate risk plan with the transition towards a low-carbon economy is based on the following characteristics *(source: TCFD)*:

- Alignment with business strategy
- Quantitative basis for climate-related metrics and targets
- Effective governance processes and structures
- Actionable, specific initiatives
- Credible information
- Periodically reviewed and updated plans
- Reported annually to stakeholders.

We also acknowledge that climate risks may have an impact on our business and that due consideration is required for the opportunities they present.

Our high-level climate change risk mitigation strategy will move us forward in the following areas:

- Supporting the SARB and other regulatory authorities on climate change risk mitigation
- Continuing to manage and investigate ways to reduce our carbon footprint
- Continued alignment of our business strategy to provide easily accessible products and services in ways that are environmentally friendly
- Participating in industry forums such as BASA to support a more comprehensive approach to climate change risk management
- Continuously monitoring transition risk as the shift towards environmentally friendly policies, regulation, and technology developments gains momentum
- Continuously assessing potential opportunities.

Capitec's climate-related risk strategy roadmap

During the past year, we compiled a climate risk framework with the assistance of industry experts. We conducted a series of interviews with internal stakeholders and produced a comparative climate risk analysis which highlighted gaps and opportunities.

Comparative analysis included a high-level review of our current climate risk approach to environmental risk management to best practice and industry peers. This informed the development of the climate risk framework which included the following:

- Framing of our material climate risk challenges and risks (physical and transition)
- Identifying key stakeholders (internal and external) likely to be impacted by the framework
- Aligning the new framework to our existing risk frameworks
- Evaluating risk mitigation options against an agreed set of value drivers
- Compliance and related requirements
- Assigning roles and responsibilities.

Risks were individually assessed in accordance with our risk assessment methodology which is based on a combination of impact and likelihood. Refer to page 30.

We also performed a carbon tax assessment to determine whether we are required to register for carbon tax with SARS. We assessed the capacity of our generators and concluded that we are below the threshold for carbon tax registration.

The table below summarises our climate risk strategy roadmap over the short term (next 12 months to February 2023), medium term (1 to 5 years) and long term (beyond 5 years). The table also shows the high-level physical risks and transition risks for each of the 3 periods.

Short term (next 12 months)	Medium term (1 to 5 years)	Long term (5 years+)
• Improve internal climate risk management capability and coordination including improved measurements and data monitoring • Establish an internal sustainability forum • Monitor regulatory developments and requirements • Continuously assess the business operations to identify opportunities to reduce our carbon footprint • Review the viability of implementing solar power capabilities at the iKhaya head office building as well as the Business banking head office in Sandton **Managing physical risk** • Monitor and understand exposure to adverse weather events **Managing transition risk** • Monitor and understand credit exposure to sectors vulnerable to transition risks • Reputational risk: Monitor stakeholder expectations and concerns	• Improve target-setting and quantitative objectives • Review strategies to reduce electricity consumption • Conform to future local and international climate-related regulatory requirements **Managing physical risk** • Review and update the common scenario stress test (CSST) to quantify the impact of a severe climate risk scenario **Managing transition risk** • 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 and the impact on clients	• Align quantitative target setting with regulatory requirements and incorporate new opportunities and developments into our climate risk strategy • Assess and understand the requirements to become carbon neutral **Managing physical risk** • Improve analytical and stress test capabilities to improve strategic insights and responses **Managing transition risk** • Understand the impact of regulatory requirements and targets on carbon-intensive industries to navigate around the risks and capitalise on potential opportunities

Climate-related opportunities

We believe that climate risk will play a more important role in the business going forward. It is therefore important to ensure that our climate risk strategy remains closely aligned and integrated into our business strategy. We believe that our agility will enable us to capitalise on opportunities, adjust for risk and continue to create value for shareholders, clients, employees and the community.

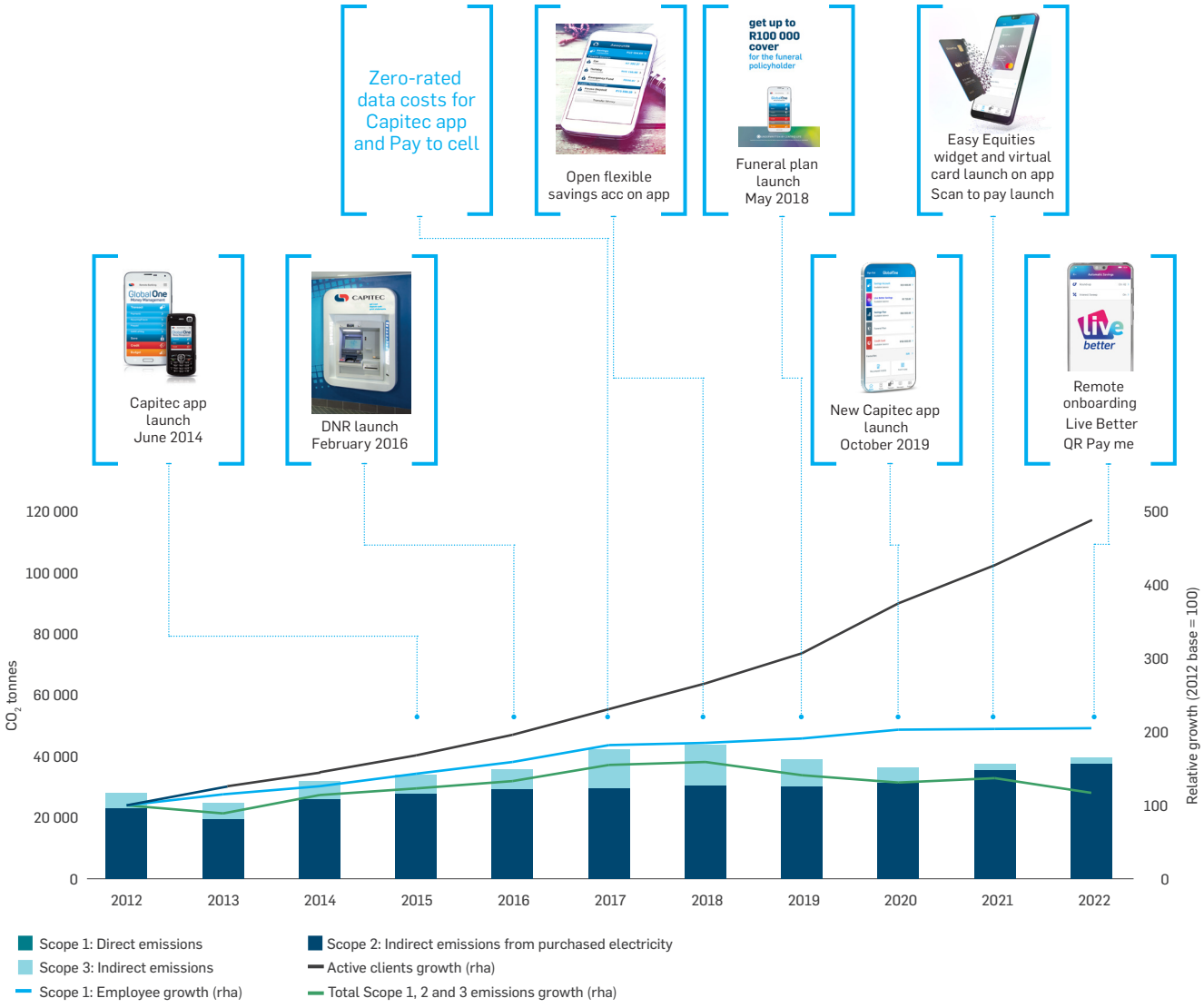
Short term (next 12 months)	Medium term (1 to 5 years)	Long term (5 years+)
• Continue to drive digital strategy for Retail and Business bank clients • Continuously assess the business operations to identify opportunities to reduce our carbon footprint • Review energy-efficient alternatives for business premises • Encourage healthy corporate culture towards climate change risk management • Collaborate with the industry through BASA on climate change risk.	• Continue to innovate and improve digital product and service offerings that yield a lower carbon footprint • 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 • Advance Capitec's internal climate change risk management capabilities.	• Continuously protect and improve Capitec's reputation as an environmentally responsible corporate citizen • Contribute in a meaningful way to the mitigation of risks arising from climate change.

Operational efficiency and digital strategy

Capitec's business strategy has already yielded positive climate outcomes for several years. This can be demonstrated through several case studies discussed below which support our commitment to reduce our carbon footprint through a broad-based strategy that focuses on client service and internal efficiencies.

The graphic below shows the journey since 2012 and highlights key strategic deliverables that enabled us to keep GHG emissions relatively flat despite exponential growth in client and employee numbers. It also demonstrates the alignment between our business strategy, climate risk strategy and our 4 business pillars of simplicity, affordability, accessibility and personal service.

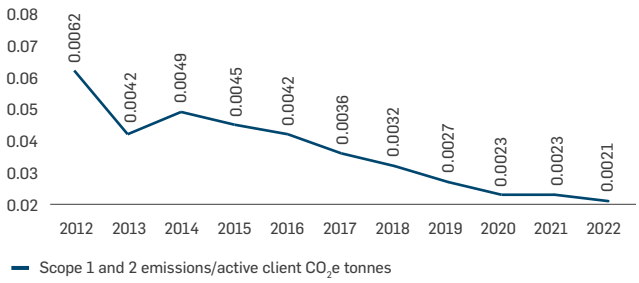
CAPITEC GHG EMISSIONS SCOPE 1, 2 AND 3 VERSUS CLIENT GROWTH



Our active digital clients grew from 200 000 in 2012 to 10.1 million in 2022.

Our GHG emissions per active client further demonstrates how our strategy produced an improved (lower) carbon footprint.

GHG EMISSIONS PER ACTIVE CLIENT



Our Stellenbosch head office

The construction of the head office campus in Techno Park, Stellenbosch, was a major achievement for Capitec as we committed ourselves to high standards of environmental protection throughout the design and construction programme. The professional consultants and contractors involved in the project were experienced in environmental best practice and informed the project accordingly.

The building design embraced 'green' outcomes where possible, an approach followed by the architects and engineers to produce sustainable solutions during the design and construction phases. Specifications of the building are summarised in below.

Energy efficiency

Performance glazing

The building was designed to benefit from natural light and views around the site. To enable this, low-emissivity glass for the entire building was specified to minimise the amount of infrared and ultraviolet light that come through the glass and improve the thermal performance of the building. In addition, double glazing was used on the entire façade. Additional benefits obtained from the double glazing are the reduction in glare and a lower requirement for blinds on the inside. In the central atrium, large overhead skylights allow natural sunlight to penetrate the building and supplement the lighting infrastructure.

Innovative blinds

The blinds selected for the building were placed in all areas exposed to direct sunlight to shade the working plane (desks). Blinds were selected with a high solar reflection ratio and a low (4%) transparency factor. Blinds are motorised using solar power and close when direct sunlight may cause a problem. The angle of the window, time of day and position of the sun is considered by the cloud and Internet of Things-based solution to control the opening and closing of the blinds.

Solar shading

During the design stage a solar model was developed, and shading devices were included in the façade design to limit the amount of direct sunlight into the building. This reduces the heat load and reduces the cooling requirement during summer months.

LED lighting

All lights throughout the property are LED lights. This significantly reduces the power consumption and environmental impact caused by fluorescent lighting.

Zoned lighting and cooling

A large portion of the building is open plan. There are very limited light switching and motion sensor switches in line with the occupancy in the area while the ventilation system monitors the thermal properties of an area and adjusts the cooling requirement accordingly to provide a constant temperature in the office when occupied.

Sub-metering

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 report on exceptions.

Building management system

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. All information technology (IT) 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.

Peak energy demand reduction

Power tariffs are generally higher during daytime than at night. 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 power requirement, and resulting in lower power costs.

Economy cooling

Being in Stellenbosch with ample fresh air, the economy 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. The cooling system uses a refrigerant with zero ozone depletion potential.

Naturally ventilated basement

The entire basement of the main building and parkade was designed with natural ventilation openings to avoid the use of mechanical fans.

Façade optimising

Thermal performance modelling was used to inform and optimise the façade design. The white finish of the building envelope is reflective and aids in cooling the building and reducing the energy requirements. The finish also eliminates the need for annual repainting and maintenance of the façade, which further results in a reduction in the overall volatile organic compounds (VOCs).

Water use efficiency

Low flow sanitary fittings

All sanitary fittings take advantage of the latest technology to limit the requirement for water for flushing.

Rainwater harvesting

2 large tanks in the building were designed to retain and attenuate the stormwater runoff 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.

Borehole water

A borehole was installed on the property to supplement the water available to support the grey water plant and irrigation system.

Air cooled air-conditioning system

The air-conditioning system uses no water for cooling purposes. The heat is transported away with air through heat exchangers.

Sub-metering

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.

Water-saving taps

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.

Use of grey water

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.

Reduced water demand for irrigation

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.

Fire system testing

All floors have isolation valves and water used during testing is expelled to storage tanks which makes it available for reuse.

Indoor quality

Increased fresh air

Advantage is being taken of the clean ambient air around Stellenbosch. Before the office opens in the morning, the office is flushed with fresh air and is used until the outside temperature demands cooling. Cooling from the ice plant supplements the energy requirement to cool the air and recycling of air only takes effect when the external air cannot be cooled effectively. A portion of the circulated air will always contain fresh air.

Exterior and interior glare control

The lighting solution and the glazing of the building were specifically selected to reduce the glare both inside and outside of the building. This reduces the demand for blinds and allows more natural light to penetrate deeper into the building.

Low volatile organic compounds

The architect and interior designer selected products for finishes in the building with a low VOC.

General movement

The use of stairwells was promoted in the design of the project to encourage occupants to use the stairs provided throughout the building to aid circulation.

Surface finishes

Surfaces around high-usage areas such as stairwells and balustrades were provided with solid surface finishes, allowing for improved hygiene and the ability to maintain clean surfaces.

Transport

Cycling facilities

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.

Cost of parking

Secure parking on the property is chargeable and lift clubs are promoted to improve the occupancy ratio of vehicles.

Material handling

Waste recycling

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.

Reduced paper use

Limited storage capacity is provided on-site for traditional paper filing systems and advantage is being taken of technology to store documents digitally. All confidential documents that are no longer required are shredded on-site and the waste is made available for recycling.

Waste management plan during construction

A waste management plan was drawn up prior to construction to set guidelines and the methodology to be followed for the avoidance, reduction, reuse, recycling or disposal of various forms of waste that might have been encountered and generated on-site during the construction period.

Emissions

Lighting pollution

Lighting pollution is limited in all cases. The building is not lit up at night other than the lighting required for security purposes. Lighting is also designed to be contained on-site and not flow across the boundary or skywards. Generally, the building lighting is shut off when there are no occupants.

Solar power

The Stellenbosch head office building was planned during 2017 and our assessment at the time rendered the use of solar energy not viable. Subsequent advances in solar technology raised renewed focus on solar energy and the viability thereof, and we have started a review of solar energy for our head office in Stellenbosch as well as the Business bank head office in Sandton. The team is assessing the viability of a 600kWh solar plant for the Stellenbosch head office which is expected to reduce electricity demand by approximately 30% and peak demand by 50%. Insofar as rented properties are concerned, we continue to encourage landlords to consider the use of solar power.

Electricity is the biggest contributor to our GHG emissions and will be a focus in our climate risk strategy going forward.

Water management

Our head office in Stellenbosch as well as our Bellville campus have boreholes which are used to supplement the grey water system. At the Stellenbosch head office, all ablution facilities exclusively use grey water or borehole water. No municipal water is used for ablution. Our offices are fitted with water-saving taps and ablution systems that further ensure the efficient use of water.

Office initiatives

We encourage employees to make use of car-pooling or lift clubs to commute to offices. The general principle is that office parking is available at a cost to employees even though the cost was waived from the start of the COVID-19 pandemic in 2020. There are also significantly fewer parking bays than the number of employees at the premises which further encourages the use of lift clubs.

We enabled remote working by implementing software and remote access capabilities and controls across the business which enables efficient online communication and meetings. This reduced physical travel requirements to branches and offices and enables a hybrid working model where employees can alternate between working from home and the office.

Our domestic travel policy limits staff to economy-class vehicle hire and airline tickets.

Recycling facilities are readily available at our campus offices where employees can dispose of recyclable items.

All meeting packs are distributed in soft copy digital format which is more secure, easily accessible and climate-friendly by saving paper. The number of office printers was reduced, and every printer is fitted with a repository for secure shredding. We also use specialised software to securely sign documents and agreements electronically.

Employees are entitled to 3 days leave per annum that can be used for volunteerism as part of our corporate social investment (CSI) initiative. Volunteerism leave can be used for social or environmental projects. We encourage employees to use this time to contribute to society and have had employees that used the time to clean beaches.

Another CSI recycling project created income opportunities for 7 individuals whereby old branding material was recycled to manufacture personal items such as string bags, lunch bags, shopper bags and pencil cases.

Our third-party suppliers and service providers

Earlier in the report, we noted that 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 partnered 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.

Our IT cloud providers have strategies in place to achieve and/or maintain a neutral carbon footprint and limit their environmental impact. These strategies include building renewable energy plants, recycling or reuse of IT equipment, establishing global funds for investing in environmental projects and the use of energy- and water-efficient cooling solutions in their data centres. Amazon Web Services, our IT cloud service provider, reported in February 2022 that their 10MW solar plant in South Africa is operational and supplies clean, renewable power to their data centres. The solar plant will save an estimated 25 000 tonnes of carbon emissions annually and is part of their strategy to reach net-zero carbon by 2040[2].

[2] *Amazon's first South African solar plant delivers energy and opportunity (aboutamazon.com).*

Improved IT network infrastructure and in-branch Wi-Fi

We have updated our network infrastructure in branches, allowing for improved internet bandwidth and free Wi-Fi for clients. Branches are now enabled on a remote collaboration platform which enables branches and regional managers to interact remotely, thereby reducing the need for travel. Clients are also enabled to perform certain tasks e.g., downloading our app to enable them to transact digitally.

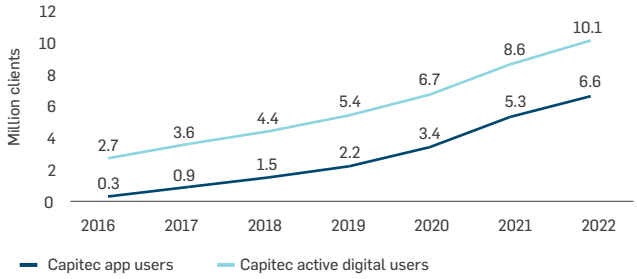
Recycling electronic equipment

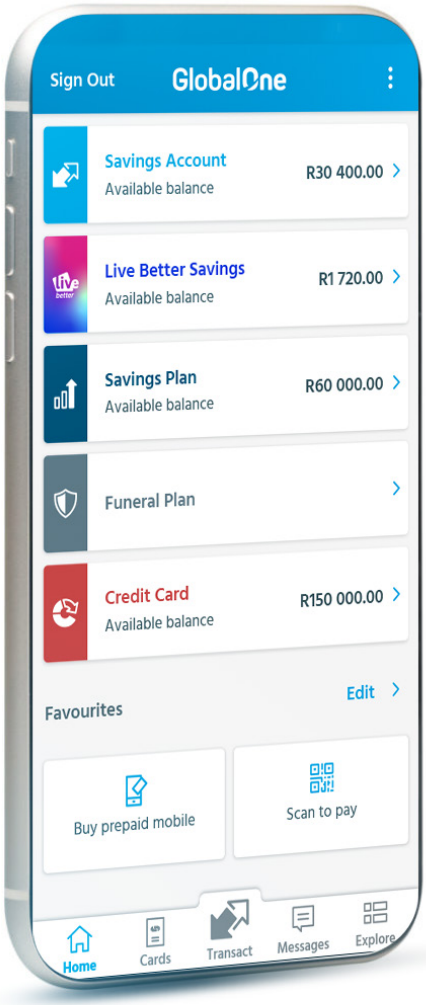
We follow a secure, responsible and environmentally friendly approach for the destruction of our redundant IT equipment through recycling via a third-party service provider. For the financial year ended 28 February 2022, we recycled 12 976kg of IT equipment in this manner.

Capitec banking app and digital transaction strategy

The exponential growth in active digital clients from 2.7 million in 2016 to 10.1 million in 2022 is key to growing our business volumes in an environmentally friendly way. Over the same period, our active Capitec Bank app users grew from 321 000 to 6.6 million. During 2017, we paid for the data usage on behalf of our clients using the Capitec banking app which further improved access and client conversion towards digital channels.

DIGITAL CLIENT GROWTH (CLIENTS)





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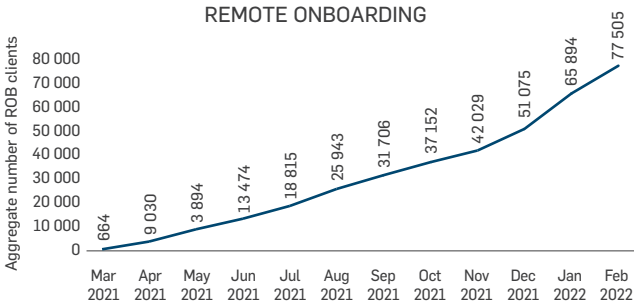
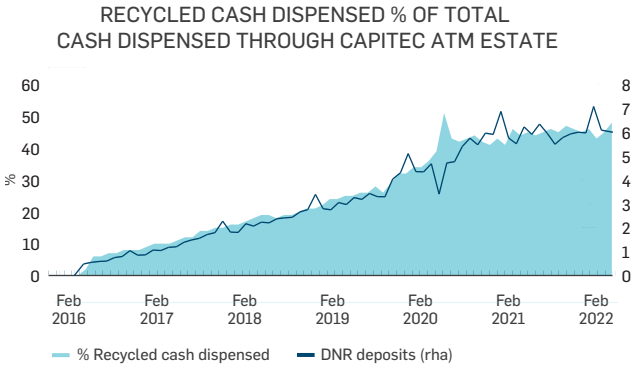
Remote onboarding (ROB)

We launched ROB capability on 15 March 2021, whereby a prospective client can open an account with Capitec without having to visit a branch in person. We acquired 77 505 clients up to February 2022 through this new functionality and have seen monthly acquisitions double after ROB system improvements were implemented in December 2021.



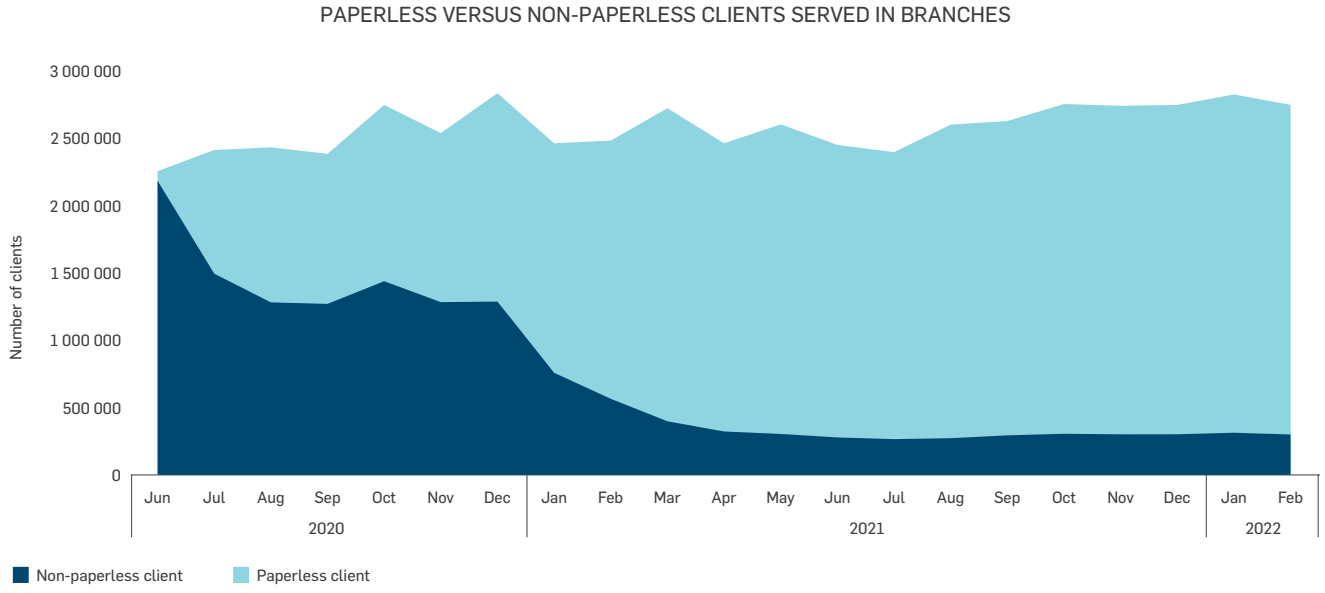
Cash efficiency

We commenced with a roll-out of DNR devices in January 2016. A DNR is an ATM that can receive cash deposits and dispense the same cash during ATM withdrawal transactions. This reduces the dependency on CIT services to transport bulk cash and reduces the accompanying risks and GHG emissions. The graph below shows that in February 2022, 48% of cash dispensed through Capitec ATMs was sourced from DNR deposits. Since 2016, more than R236 billion in cash had been recycled which would otherwise have been replenished via CIT services.



Branch efficiency

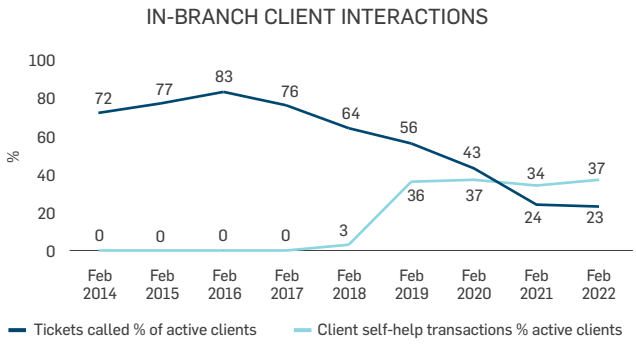
The paperless initiative was launched in June 2020 with the aim of removing most paper-based documents from branches. The initiative has been very successful and 13.5 million clients have enrolled for the paperless initiative. In February 2022, 89% of all branch agreements that were previously paper-based, were concluded paperless. The figure below shows how quickly clients converted and consented to the new process.



The difference is evident in the reduction in paper usage which reduced from 1 105 CO_2 tonnes to 163 CO_2 tonnes between 2019 and 2022, an 85% reduction in carbon emissions.

Description	Total 2019 (CO_2 tonnes)	Total 2020 (CO_2 tonnes)	Total 2021 (CO_2 tonnes)	Total 2022 (CO_2 tonnes)
Scope 3 indirect emissions: Paper usage	1 105	1 081	252	163

We have implemented various strategies which aim to reduce the necessity of clients having to visit the branch or see a branch consultant. The graph alongside shows the number of client interactions expressed as a percentage of the total number of active clients; the ratio improved from more than 80% to just over 20%. We also show the extent to which clients were enabled to perform self-help transactions through self-service terminals and DNRs.



Integration with risk management

According to National Treasury's Financing a Sustainable Economy, Technical Paper (2021), the "impacts of climate change on the global and South African financial sector are potentially significant if not effectively mitigated. Climate-related risks for financial institutions can be classified as physical, transition, liability and disclosure risks."

Table: General climate-related risks associated with banking and finance:

Climate-related risk faced by the financial sector

Risks	Banking direct	Banking indirect	Insurance
Physical	Impacts common to all financial sectors: Dependence on local government emergency response teams; business interruption – impacts on value, market position; supply chain interruptions; disasters create increased social vulnerabilities; links between climate issues and security risks		
Increased likelihood of extreme weather events, fire, floods, storm damage, sea level rise, water availability	Risks to own facilities; data centres – business continuity; new investments in water security required for facilities	Land/buildings held as security for loans (e.g., mortgages, commercial); default risk; impacts on agricultural output	Increasing frequency, quantum of claims; declining insurability; potential for convergence – creating black swan events
Transition	Impacts on creditworthiness, ability to attract investment and secure long-term insurability		
Regulatory change – impacts on business viability	Carbon tax; adequacy of portfolio risk evaluation, management and disclosure	Carbon tax impacts on fuel and costs; regulatory changes; border tax adjustments; trade sanctions or restrictions e.g., reduced coal exports	Changing flood lines or high-water levels may significantly impact the cost of insuring some properties; increase in solvency requirements may reduce the viability of segments
Consumer/market change	Consumers pushing for change (e.g., anti-fossil fuels); civil society or global pressure; reputation management	Changing consumer pressures; reputation management	Likelihood of decreasing affordability due to risks increasing; pressure groups pushing for withdrawal of underwriting for some business (e.g., coal)
Stranded assets	Assets retired before end of economic life creating stranded investments	Assets retired before end of economic life creating stranded investments	Increasing cost of claims for high-risk infrastructure leads to assets being abandoned, creating social issues
Liability			
Directors' and officers' liability insurance and disclosure risk	• Cost/pricing and attribution of climate-related risks • Questions regarding directors' role and adequacy of disclosure • Attribution to climate risk challenging; potential of increased litigation regarding negligence or lawlessness		

Source: National Treasury, Financing a Sustainable Economy, Technical Paper (2021)

Enterprise risk management

During 2021, we complimented our general ERM approach with a climate-related and environmental management framework which was developed to integrate with the existing ERM process.

We view risk management as an essential element of the strategic management of our business. Fundamentally, risk management includes the assessment of key risks and the implementation of suitable risk responses to ensure effective and adequate management thereof.

We adopt a structured ERM process that is aligned to the ISO 31000 ERM standard. The risk management process involves the systematic application of policies, procedures, and practices to the activities of identifying, evaluating (assessing), treating, monitoring and reporting risk.

Our risk management process

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

Risk identification

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

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

Risk evaluation

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

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

Risk treatment

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

Risk monitoring

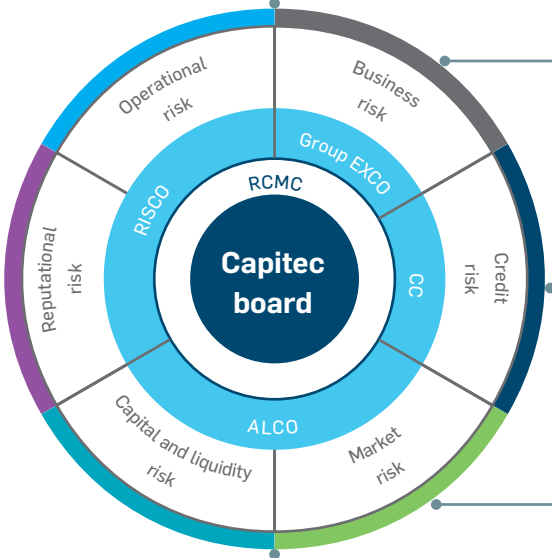
Risk is managed as part of our daily operations according to key risk indicators (KRIs). These assess risk against predetermined tolerance levels. KRIs can be found on the management operating system and are reviewed regularly. Risk monitoring also includes scheduled mitigation reviews with the risk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

Risk reporting

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

Lines of defence

Capitec subscribes to the 5 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 accountability in the risk management processes.



1st line of defence Risk ownership

Every employee, head of department, manager and team leader continually participates in the risk management process. The executive of each division takes overall accountability for risk management in the division. Everyone is expected to manage the risks associated with the environment in which they operate, including the risks preventing them from achieving Capitec's strategic objectives.

2nd line of defence Risk control

Risk functions provide an integrated view and validation of risks for all levels of the business on an ongoing basis. The continuity management team, ALCO and the credit committee (CC) review risks, agree on mitigating actions and assign responsibilities. These functions ensure that employees and line functions are able to manage their risks. This includes providing structures and frameworks to ensure Capitec's key risks are identified and evaluated in a standardised way and that treatment plans are within risk appetite and tolerance levels.

3rd line of defence Independent assurance (internal)

Internal audit provides independent validation and reviews risk management and compliance processes at all levels on an ongoing basis. The function provides an assurance opinion on the adequacy and effectiveness of controls, including risk management practices.

4th line of defence Independent assurance (external)

Various external risk audits and interventions are done by the SARB, the National Credit Regulator, external assurance providers, advisory services and verification agencies.

5th line of defence Board oversight

The Capitec board subcommittees (audit committee, RCMC and DAC) oversee all aspects of risk and compliance management.

Risk appetite

Capitec defines its risk appetite as the level of risk we are willing to accept to achieve our strategic objectives. Risk appetite reflects the business's risk management philosophy and, in turn, influences the entity's culture and behaviour towards risk.

Climate risk and ESG risk are not treated as separate risk categories although they could manifest in any of the 6 risk categories. The table below shows our risk appetite for each of the 6 risk categories.

Risk category	Risk appetite
Credit risk (Retail)	Medium
Credit risk (Business)	Low
Liquidity risk	Low
Market risk	Low
Operational risk	Low
Reputational risk	Low
Business risk	Low

Low-risk appetite is defined as accepting as little risk as possible and taking a cautious approach towards risk-taking. Medium-risk appetite is defined as a balanced and informed approach to risk-taking.

Capitec's climate-related risk drivers

We have already mentioned in this report that we compiled a climate risk framework with the assistance of industry experts during the past year (refer to our climate-related risk strategy roadmap on page 14). As part of the process, internal stakeholders were identified and interviewed to produce a comparative climate risk analysis which highlighted our gaps and opportunities.

The comparative analysis included a high-level review of our current climate risk approach to environmental risk management to best practice and industry peers. This informed the development of the climate risk framework which included the following:

- Framing of our material climate risk challenges and risks (physical and transition)
- Identifying key stakeholders (internal and external) likely to be impacted by the framework
- Aligning the new framework to existing risk frameworks
- Evaluating risk mitigation options against an agreed set of value drivers
- Compliance and related requirements
- Assigning roles and responsibilities.

Risks were individually assessed in accordance with our risk assessment methodology which is based on a combination of impact and likelihood.

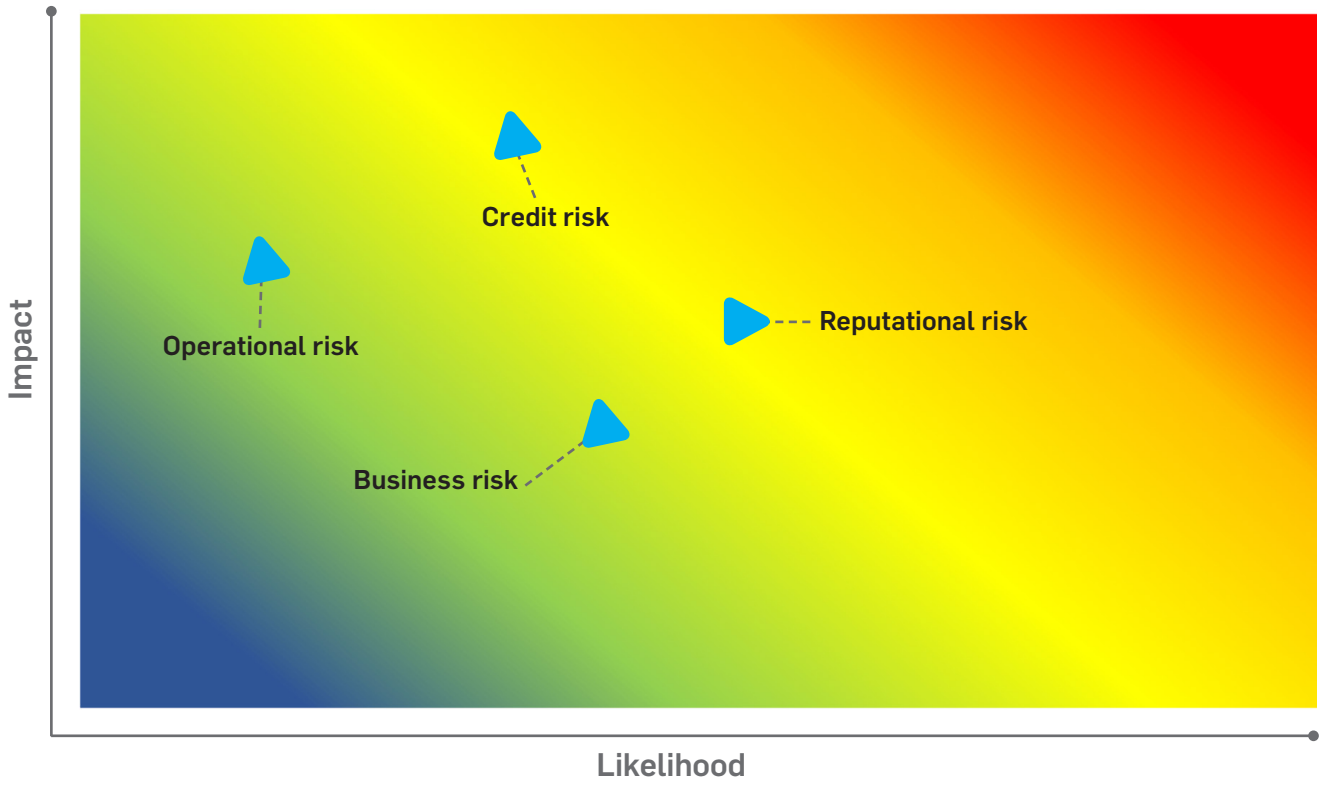
Risk category	Physical climate risks	Transition climate risks
Credit risk	• Retail or SME lending/saving clients impacted by climate risk event in disaster-sensitive areas which could be amplified if municipalities do not have strong disaster risk management capabilities	• Retail or SME lending/saving clients impacted by job losses in potential 'stranded' sectors.
Business risk	• Impact of retail and SME clients' ability to save or borrow due to the occurrence of extreme climate risk events	• Client preference for alternative products and services that are considered superior from a 'green' or environmentally friendly perspective • Client preference may shift towards businesses that reward environmentally friendly behaviour e.g., preferential interest rates
Operational risk	• Regulation is expected to be formalised with disclosure requirements and potential carbon emission targets which create compliance risk	• Conforming to new regulatory requirements that are expected to be issued
Reputational risk	• There is reputational risk if Capitec is perceived as falling short of societal expectations, peer group performance and regulatory expectations on climate risk management • Reputational risk through association with suppliers, third parties and business partners that are not considered environmentally friendly	• Disclosure: Future mandatory requirement to disclose GHG emissions from retail and commercial lending, in addition to own GHG footprint
Other risks		• Potential future carbon tax liability

Risk assessment

We use a simple risk matrix to assessing risks in terms of impact and likelihood, each on a scale of 1 to 5. Users are guided to determine the appropriate impact of a risk based on a qualitative description and a quantitative profit impact to inform the correct selection from the 5 options. The likelihood is similarly determined which results in a risk assessment that can be plotted on the 5 x 5 risk matrix below. The colour schemes indicate whether the risk assessment is either very low, low, medium, high, or very high. This risk assessment then determines the risk mitigation timeline allowed for the risk owner to appropriately mitigate the risk to a level that is within the risk appetite.

Notwithstanding the risk ratings below, we are of the view that addressing climate-related matters will remain an important focus for the business. The relative low risk ratings should therefore not be construed as implying a low priority.

Our assessment of the climate-related risk drivers is as per the diagram below.



Climate risk stress testing

Stress-testing is an important risk management tool and provides a quantitative outcome for a risk-based scenario. It is an important ERM discipline that informs the business of the potential impact of a risk so that the ERM process can be followed to mitigate, treat, monitor and report the risk accordingly. Refer to Enterprise risk management on page 27.

Case study: 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 both physical risk and transition risk as defined.

An increased frequency and intensity of climate risk events, such as the drought in the Western Cape between 2016 and 2019, have the potential to impact business profits negatively. The negative impact of an adverse climate risk event on, for example the agricultural sector, can impact banks and other financial institutions who are exposed to physical risks in that industry. Banks and other financial institutions are similarly exposed to transition risks in impacted industries.

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 1% 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 78% of the total credit book.

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

Industry	December 2020 Stress credit loss increase over 3 years (%)	Total credit balance exposure distribution – Retail and Business (%)	February 2022 Total credit balance exposure distribution – Retail and Business (%)
Agriculture, hunting, forestry and fishing	28	1	1
Mining and quarrying	24	9	9
Electricity, gas and water supply	20	1	1
Manufacturing	15	10	10
Other	8	32	32
Sovereign	–	37	39
Wholesale and retail trade	–	9	8
	8		

Retail bank credit risk

The table below shows the distribution of the Retail bank credit exposure per industry where our clients are employed. It demonstrates the limited exposure to industries most vulnerable to adverse climate risk events.

Industry	Balance (%)
Agriculture and hunting	1
Mining and quarrying	11
Electricity, gas and water supply	1
Manufacturing	11
Other	21
Sovereign	46
Wholesale and retail trade	8
Total	100

The Retail credit systems enable the business to apply an idiosyncratic credit risk strategy at a granular level. Credit risk exposures can be increased or reduced based on forward-looking variables. The credit team performs extensive research and models future scenarios for industries and companies. For example, credit exposure for clients employed at businesses with unfavourable prospects are 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 changes with short lead times.

Business bank credit risk

The Business bank division does not offer corporate business finance and focuses on SMEs. The following table below shows a segmented Business bank credit portfolio on 28 February 2022 and shows small exposures to industries that are vulnerable to adverse climate risk events as evidenced during the CSST i.e., agriculture and mining. Refer to Climate risk stress testing on page 31.

Industry	Balance (%)
Agriculture, hunting, forestry and fishing	–
Mining and quarrying	1
Manufacturing	6
Electricity, gas and water supply	–
Construction	3
Wholesale and retail trade, repair of specified items, hotels and restaurants	9
Transport, storage and communication	1
Financial intermediation and insurance	19
Real estate	34
Business services	3
Community, social and personal services	2
Private household	11
Other	11
Total	100

The greatest impact is expected to be incurred by the secondary transition effects on local economies with high dependency towards the high carbon-related industries as their primary income generation. We are in the process of establishing a new employer database with vertical (company structure), horizontal (suppliers, contractors, etc.) and geographic data on employers which will enhance our ability to manage the risk.

Migration of ways of work, goods and services across industries in response to climate change risk will also bring new business opportunities which Capitec's Business bank division aims to research, monitor closely and participate in where it makes business sense.

Business bank credit policy

The Business bank credit risk policy states that any lending/financing request considered for a client that could potentially be harmful to the environment, be assessed. Mitigation of the risk must be documented in the credit application and environmental risk assessment may be requested on a case-by-case basis. Feedback from external valuators is considered on all property valuations performed for residential mortgage and commercial property loans approved and where bonds over property are registered on all other credit facilities such as overdrafts.

Metrics and targets

Due to the nature of Capitec's banking operations, the business is considered a low contributor to global warming and GHG emissions compared to industry peers.

Carbon footprint

The carbon footprint accounting policy commits Capitec to improving and reducing the group's carbon footprint on a continuous basis. We therefore calculate our carbon footprint and formally report GHG emissions on our integrated annual report. Capitec's carbon accounting and reporting encompasses the emissions of the Capitec group and its subsidiaries and its direct related activities.

Accordingly, we report on direct and indirect emissions according to Scopes 1, 2 and 3 as defined in the GHG Protocol:

- Scope 1 emissions are direct GHG emissions emitted from sources owned by the group, for example, a vehicle owned by Capitec
- Scope 2 emissions are GHG emissions of purchased electricity from sources directly consumed by the group
- Scope 3 emissions are indirect emissions, because of activities of the group's suppliers, for example, CIT services, employees travelling for work, etc.

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

Carbon footprint monitoring

Carbon footprint (tCO_2e)

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

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

Intensity footprint (tCO_2e)

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

Methodology

We use the following:

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

Assumptions

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

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

Target

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

The carbon footprint monitoring is not subject to independent assurance. Although there was a 41% increase in the overall footprint between the baseline and the current year's emissions, there was a 20% (for Scope 1 and 2 emissions) reduction in the footprint measured according to the intensity footprint per full-time employee. Our target is to reduce or remain constant with our baseline year emissions measured according to the full-time employee equivalent.

Capitec supports science-based targets. Going forward, we plan to review how we can apply this for future target-setting purposes for GHG emissions and align to the goals set by the Paris Agreement.

Industry benchmarking

When comparing Capitec's carbon intensity footprint (tCO_2e) per full-time employee to other South African banks, Capitec's intensity footprint is markedly lower (refer to the table below). The reasons for this are our business model and operating activities.

Bank	Reporting year	Carbon footprint (tCO_2e)/ full-time employees
Capitec	2022	2.56
Bank A	2020	4.81
Bank B	2020	4.71
Bank C	2021	4.76
Bank D	2021	3.02
Bank E	2021	5.60

Moving forward

We view our climate risk management strategy as a journey. We will therefore endeavour to increase our internal focus and will keep stakeholders informed. We will continue to align to the TCFD framework for our reporting and will monitor regulatory developments in terms of disclosure standards.

As mentioned before, we also plan to coordinate our climate risk management plan within a broader ESG strategy. We are committed to our clients, shareholders, employees, our community and all stakeholders to ensure that we continue to contribute meaningfully to our collective sustainable existence.

Capitec's climate change-related financial disclosure roadmap

Short term (next 12 months)	Medium term (1 to 5 years)
• Compile and publish the first climate-related financial disclosure report during 2022 • Improve and expand our climate-related financial disclosure as guided by the SARB, JSE and TCFD pillars • Improve engagement and participation on ESG matters with ESG rating agencies • Demonstrate the alignment between business strategy and climate risk strategy • Improve industry participation through BASA	• We aim to improve and expand our climate-related disclosure, with considerations for emerging best practices and science-based targets • Improve ESG ratings by publishing ESG-related policies in the public domain • Investigate and assess requirements for the following and disclose accordingly: – UN PRB – CDP – UNEP FI – UN PRI – Equator Principles – Net Zero Banking Alliance

Glossary

Term/ Abbreviation	Definition
ALCO	Asset and liability committee
ATM	Automated teller machine
BASA	Banking Association South Africa
BCBS	Basel Committee on Banking Supervision
CC	Credit committee
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CIT	Cash-in-transit
CO2	Carbon dioxide
COP	Conference of the Parties
COVID-19	Coronavirus disease 2019
CSI	Corporate social investment
CSST	Common scenario stress test
DAC	Directors' affairs committee
DEFRA	Department for Environment, Food and Rural Affairs (United Kingdom)
DNR	Dual note recycler
ERM	Enterprise risk management
ESG	Environmental, social and governance
EXCO	Executive management committee
GHG	Greenhouse gas
ISO 31000	International Organisation for Standardisation standard for Risk Management
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
IT	Information technology
JSE	Johannesburg Stock Exchange Limited
kg	Kilogram
King IV™	King IV Report on Corporate Governance for South Africa, 2016™
KRI	Key risk indicator
kWh	Kilowatt hour

Term/ Abbreviation	Definition
MW	Megawatt
MWh	Megawatt hour
QR	Quick response
RCMC	Risk and capital management committee
rha	Right-hand axis
ROB	Remote onboarding
RISCO	Risk committee
SARB	South African Reserve Bank
SARS	South African Revenue Service
SASB	Sustainability Accounting Standards Board
SEC or SESCO	Social and ethics committee (SEC) and social, ethics and sustainability committee (SESCO)
SME	Small and medium enterprises
TCFD	Task Force on Climate-related Financial Disclosures
tCO_2e	Tonnes of carbon dioxide equivalent. Emissions are expressed as (CO_2e) as not all emissions are carbon dioxide
UN	United Nations
UNEP FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact
UN PRB	United Nations Principles for Responsible Banking
UN PRI	United Nations Principles for Responsible Investment
VOCs	Volatile organic compounds